Workplace Safety and Insurance Board

2011 Annual Report

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ONTARIO

Workplace Safety and Insurance Board
Commission de la sécurité professionnelle et de l'assurance contre les accidents du travail

2011 Annual Report

Table of Contents

	Page
President and CEO's message	3
Chair's message	5
Board of Directors and Committees	7
Performance measures, outcomes, and client service assessments	10
Annual research priorities and findings	11
Management's discussion and analysis	12
Consolidated financial statements	47
Notes to the consolidated financial statements	51

President and CEO's message

The results presented in this annual report show that the WSIB turned a corner in 2011. Our revenues have increased, and expenses have decreased. We had the first annual surplus the organization has experienced in 10 years (prior to actuarial adjustments). For the first time in 14 years, we did not have to draw on the investment fund to cover operating expenses.

Most importantly, all these things have been achieved in the context of better medical care for injured workers, and more cooperative support for workers and employers to help Ontarians get better and back to work.

In 2011 we reconfirmed our mandate as a workplace compensation board – providing fast, fair compensation to people who are injured in the course of their employment, and no-fault workplace coverage to employers. We also reconfirmed our focus on restoring workers as closely as possible to where they were before injury, while supporting employers in restoring their businesses to full productivity.

We are doing a better job than ever before at providing the fundamentals – claims management, health care, and work reintegration – resulting in reduced benefits costs while improving outcomes for injured workers. We are redefining ourselves as an organization and responding to the changing environment around us – fully supported by careful research, planning, and a commitment to financial sustainability.

eServices a massive success

We're improving the way we interact with injured workers and employers. In particular, the launch of our eServices – a range of online products, accessible via our website, and allowing our customers to do business with the WSIB online, 24/7 – in January 2011 fundamentally changed the way people do business with us. The uptake on this initiative has been amazing: we went from virtually nothing at the start of the year to almost 46,000 registered eServices users and 1.6M transactions at year end.

We also helped make it easier to do business with us by expanding our telephone hours. More changes like these are on the way.

Investing in our people, processes, and technology

We're making huge investments in our people, our processes, and our technology to ensure we have the resources in place to deliver fair benefits at a fair price for Ontario's workers and employers. In 2011, we hired 110 new eligibility adjudicators as part of our strategy to expedite entitlement decision-making and ensure that only compensable claims enter the system.

Through a combination of new and redesigned roles and business processes, we are engaging workers and employers much earlier. This early engagement to facilitate return to work directly in the workplace is leading to improved recovery and return to work outcomes.

Ontario injured workers are staying at work and getting better

These and other efforts are being reflected in our bottom line. Lower costs will eventually mean premium reductions for employers, but these improvements are not on the backs of injured workers. The results speak for themselves, and they are summarized in the introduction to the Management's Discussion and Analysis of this report on page 14.

Smart strategies are paying off

We've made our strategies to improve recovery and return-to-work outcomes succeed. We've shown our customers that our innovative solutions – like specialized roles for eligibility decision making, short-term and long-term case management, and specialty teams for areas such as Second Injury and Enhancement Fund (SIEF) relief – are the right solutions at the right time for our organization.

Getting health care right

The comprehensive Health Care Strategy we kicked off in 2010 is driving big improvements as well. By integrating health care, return to work, and case management, we're showing the benefits of early return

to work for workers and employers. Despite significant inflationary pressures on medical costs, we've seen a year-to-year drop of 5.8% in medical costs.

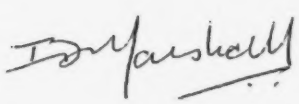
This strategy is getting Ontario workers better access to local Regional Evaluation Centres and Specialty Clinics across the province; our High Impact Claims programs are improving recovery outcomes for low back, shoulder and fracture injuries; and our programs of care are proving the value of evidence-based health care delivery plans.

More changes are coming

We are building a new reputation as a trusted, accountable and value-added agency for Ontario's workers and employers. Success is well within our reach as long as we maintain the pressure on claims duration and health care costs while continuing to offer innovative new solutions, and excellent customer service.

These successes are just the first step. As we address the fiscal realities the system faces will be challenged to bring in more money with higher premiums while tightening our administration to do more with less and make sure benefits are going where they are really needed. Like the Ontario government, the WSIB finds itself in the position of having to make some tough choices to get the system back to financial sustainability.

We've achieved a lot, but there's a lot more to be done as we return to the fundamental principles that underpin Ontario's workers' compensation system. Those principles are what it's all about: full recovery, both physically and financially, and getting back to what matters.



I. David Marshall

President and CEO

Chair's Message

In 2011, the WSIB further aligned its priorities, while strategizing and developing its programs and services. This work has led to significant improvements in care for injured workers, better support for their transition back into the workplace, and more efficient use of employer premiums.

Earlier this year, I announced that I will not be seeking another term as WSIB chair, which means I will conclude my six years as chair in May 2012. This decision wasn't made lightly, and I have thoroughly enjoyed my time at the WSIB. I was very lucky to work first with Jill Hutcheon and then with David Marshall – both truly great CEOs and a pleasure to work with toward common goals during a transformative period at the WSIB.

Stronger relationships with stakeholders

In 2011, this organization's continued to build stronger relationships to strengthen its bond with system partners. The WSIB values its stakeholders' advice, input, and counsel greatly. We would not be seeing the results you will read in this report – showing we have stabilized the system's finances and we're getting our services back to what matters – without the ideas and analysis we've received from stakeholders.

My four Chair's Stakeholder Advisory Committees have helped to promote transparency and meaningful dialogue with representation from the worker and employer communities. The committees meet every quarter to discuss system issues including those relating to the construction industry, the industrial and manufacturing industries, and labour and injured workers.

They have developed, tested and advanced ideas, positions, and solutions in a very constructive dialogue with the WSIB. Recommendations from the committee meetings have gone to the Board of Directors and the WSIB Executive Committee. In particular, the work of the committees in 2011 contributed a great deal to our new Policy Framework and the development of our policy agenda for 2012. In the coming year, stakeholders will have the opportunity to participate in consultations in relation to the policy updates on the agenda.

Encouraging results

We are seeing some encouraging results from the continued rollout of our Service Delivery Model and the new Work Reintegration Program. We are also making headway in addressing rising health care costs with a strategic procurement process while at the same time offering better care.

We have launched several health care initiatives to provide increased support for workers. The number of Specialty Clinics serving workers has increased from 15 to 35 over the last three years and the number of expert physicians available to assist with complex cases has increased from 15 to 100 over the same time period.

Accomplishments in prevention

While the WSIB will remain a key player in Ontario's health and safety system, we have been placing an increased focus on its core operations in preparation for the shift of the prevention mandate to the Ministry of Labour. I am truly proud of the organization's accomplishments in the area of prevention.

I wish Ontario's Chief Prevention Officer George Gritziotis and his team nothing but the best in their future efforts. Of course, I will be happy to support them in any way. My commitment to engaging leaders in communities across Ontario to motivate workplace health and safety awareness and change will always remain – as will my memories of working with the many others who share my commitment to the elimination of all workplace injuries, illnesses, and fatalities.

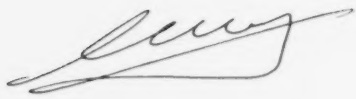
Providing quality support and care

It has been a pleasure to lead the WSIB – working to help reduce injuries, illnesses and fatalities in our workplaces, and helping to take care of our workers and their families when incidents occur.

My time here has been one of the most satisfying of my career in public service, and for that I must thank all of the great people I have worked with at the WSIB. This organization is privileged to have such a

committed, professional, and caring group of people working in communities across Ontario to provide quality support and care for workers, employers and their families.

I congratulate them all on the great strides they have made in reducing time lost to injuries and illness in Ontario workplaces, and I commit to them that I will continue to reach out to stakeholders and continue to spread the message of prevention across this province.



Hon. Steven W. Mahoney

Chair

Board of Directors and Committees

The members of the WSIB Board of Directors have a diverse range of skills and understanding, reflecting their experiences across many business and industry sectors.

Steven W. Mahoney

Chair: May 17, 2006 – May 16, 2012

The Honourable Steven W. Mahoney, P.C. has served over 30 years in all levels of government; as a City and Regional Councillor (Mississauga), and MPP in the Ontario Legislature and as a federal Member of Parliament. He also chaired the Prime Minister's Task Force on Young Entrepreneurs, was elected Chair of the Ontario Caucus and he was appointed to the Federal Cabinet as Secretary of State for Crown Corporations. As Minister, was responsible for six Crown Corporations including CMHC, Canada Post, Canada Lands and the Royal Canadian Mint.

Steven is President of Mahoney International, a private consultancy specializing in the marketing of new products and concepts serving both public and private clients in North America and abroad.

I. David Marshall

President and CEO: January 24, 2010 – January 23, 2015

Investment Committee, Governance Committee

Prior to joining WSIB, I. David Marshall was Canadian Ambassador to Barbados and the Eastern Caribbean. He is also a Fellow of the Certified General Accountants Association of Canada and served in several senior executive roles in the Government of Canada, consecutively as Assistant Auditor General for Canada; Assistant Deputy Minister at Revenue Canada, Customs and Excise; and Assistant Deputy Minister at Employment and Immigration Canada.

David has also served in senior positions in the telecommunications and banking industries including appointment as Vice Chairman of CIBC from 1999 to 2002. He returned to the Federal Government as Deputy Minister of Public Works and Government Services Canada and Deputy Receiver General for Canada.

Lawrence R. Barnett

Member: January 15, 2010 – January 14, 2013

Health and Safety Committee (Chair), Human Resources and Compensation Committee

Larry Barnett has a long affiliation with the Teamsters Local 938, where he has held a number of roles, which included Office Manager, reporting to the President. He was also a Business Representative, with responsibility for negotiating contracts on behalf of union members and representing them at grievances and hearings. As the Benefits and Pension Coordinator for the Local, and Trustee, Health and Welfare Benefit Plans, he negotiates insurance benefits.

Estelle M. Caines

Member: November 18, 2009 – October 26, 2011

Human Resources and Compensation Committee

Estelle Marie Caines worked as a hoist operator at the Red Lake Goldcorp Mine for 17 years, and then returned to school via Labour Market Re-Entry where she attained a B.A. in Psychology and Conflict Resolution Studies from the University of Winnipeg/Menno Simons College along with an Applied Counseling Certificate from University of Manitoba.

Estelle is currently Director of Access Services with Integrated Services Northwest, a program of Lake of the Woods Child Development Center, and travels extensively throughout Northwestern Ontario and maintains a broad perspective of life and work in northern communities.

Brendan Calder

Member: May 4, 2011 – May 3, 2014

Audit and Finance Committee, Investment Committee

Brendan Calder is currently an Adjunct Professor of Strategic Management and Entrepreneur in Residence at Rotman School of Management. Previously, he served as Chairman, President and CEO with CIBC Mortgages from 1996 to 2000. Mr. Calder was also President and director of FirstLine Trust Company.

Brendan holds a Bachelor of Math Degree from the University of Waterloo and attended the Advanced Management Program at Harvard Business School.

Patrick Dillon

Member: July 17, 1996 – July 16, 2013

Human Resources and Compensation Committee (Chair), Health and Safety Committee, Governance Committee

Patrick J. Dillon is the Business Manager and Secretary Treasurer of the Provincial Building and Construction Trades Council of Ontario. He began his career in the construction industry as an apprentice electrician in 1961 and became a journeyman in 1966. Following 18 years of experience in the construction industry, he was elected Business Manager of Local 105 of the International Brotherhood of Electrical Workers (IBEW).

In 1991, Pat was elected Executive Chairman of the IBEW Construction Council of Ontario. He currently serves on the board of Infrastructure Ontario, the 2015 Toronto-Greater Golden Horseshoe Pan Am Games Committee, and recently the Appointments Council for the Ontario College of Trades.

Louis Girard

Member: January 28, 2009 – January 27, 2013

Audit and Finance Committee, Health and Safety Committee, Human Resources and Compensation Committee

Louis Girard is a graduate of the University of Guelph, and was recently CEO of UTi Canada, a $156 million public Global Logistics company. Recently Louis supported an evaluation of a Logistics Hub at the Port of Montreal and is currently working on future policy development with Transport Canada to support the growth of the 3PL Logistics companies across Canada.

P. Morgan McCague

Member: August 21, 2008 – August 20, 2014

Audit and Finance Committee, Investment Committee (Chair), Human Resources and Compensation Committee

P. Morgan McCague has over 40 years work experience establishing new investment operations and new programs and has worked at a senior level with the Ontario Teachers' Pension Plan, the Alberta Teacher's Retirement Fund and various financial institutions.

Morgan is a graduate of the Institute of Corporate Directors, was a Director of GCAN Insurance Company, and served as President of the Buy-Side Investment Management Association.

Marlene McGrath

Member: October 14, 2010 – May 1, 2012

Audit and Finance Committee (Chair), Investment Committee

Marlene McGrath is the Vice President, Human Resources, International Operations, 3M Company of St. Paul, Minnesota. Marlene is located at the 3M Canada Company headquarters in London, Ontario and has been with the 3M organization since 1994. She is the former Chair of St. Joseph's Health Care

Foundation Board in London and is also a Member of the Board of Directors of the London Economic Development Corporation.

Marlene was called to the Ontario Bar in 1988 and is a member of the Canadian Bar Association. She is also a graduate of the Institute of Corporate Directors.

Lea M. Ray

Member: December 3, 2008 – December 2, 2012

Health and Safety Committee, Investment Committee, Governance Committee (Chair)

Lea M. Ray is a Canadian Chartered Accountant and is currently employed in Toronto, Ontario as Vice President of Corporate Finance for Warner Bros. Entertainment Canada Inc., a division of Time Warner. She holds a Bachelor of Commerce (Honours Business Administration) Degree from the Odette School of Business, University of Windsor.

Lea is a certified director (ICD.D) of the Institute of Corporate Directors, at the Rotman School of Management, University of Toronto. She serves as a Director for the Rouge Valley Health System and Tarion Warranty Corporation.

Sari Sairanen

Member: September 24, 2008 – September 23, 2

Health and Safety Committee, Governance Committee

Sari Sairanen is National Health and Safety Director at the CAW and came to the National Union from the Airline Division, which represents members from across Canada. Sari also sits on the HRSDC OSH Regulatory Review Committee, the CSA's Strategic Steering Committee and the Canadian Labour Congress' Occupational Health and Safety Committee.

Committees of the Board of Directors

The **Audit and Finance Committee** advises on financial and other reporting practices and internal controls. (The committee includes external advisor Peter Ringler.)

The **Health and Safety Committee** advises on workplace health and safety policies, performance objectives, and measurement criteria.

The **Human Resources and Compensation Committee** advises on the health and safety of WSIB employees and the human resources function.

The **Governance and Policy Committee** advises on governance and policy matters.

The **Investment Committee** provides counsel on investment policy, monitors investment returns, and reviews the performance of investment managers and their compliance with applicable laws and regulations, and their respective mandates. (The committee includes external advisors **Maureen Farrow**, **Don Walcot**, and **Paul Grise**.)

Performance measures, outcomes, and client service assessments

More effective services for the WSIB's customers

In 2011, our service delivery model, health care strategy, and managed work reintegration continued to improve services for injured workers and employers.

Faster, better decisions

Initial claims decisions are being made faster with no loss of quality. Our Chief Statistician conducted a quality assurance review of randomly drawn claims and found that 97.6% of eligibility decisions were in compliance with policy and legislation. This review will be repeated regularly. In addition, while the number of appeals is increasing, the percentage of appeals allowed or allowed-in-part has reached its lowest point in recent years.

Better health care for injured workers

The WSIB continued to focus on early, specialized, evidence-based care to improve recovery. Staff members are intervening earlier in cases so that workers receive the health care they need and health programs are integrated with their return to work plans.

Our new approach to work reintegration is getting results

Earlier intervention is leading to significant improvements in return to work outcomes for injured workers. Some 300 more work re-integration specialists are ensuring effective support is provided to workers and employers as early as possible. Earlier, shorter, and more focused retraining programs are increasing the number of workers able to transition to a new occupation. In 2011, 91% of all injured workers with lost time injuries were back to work within 12 months of their injury.

We are achieving better recovery and return to work outcomes for injured workers

More workers are recovering, returning to work, and mitigating their wage loss. The percentage of workers with a lost-time injury receiving a permanent impairment award decreased in 2011. At the same time, short- and medium-term claims durations have decreased significantly. Since 2010, the percentage of claims on-benefits at 3, 6, 12, and 24 months has decreased by 2.8%, 10.9%, 20%, and 25.7% respectively. Fewer claims are being locked-in and the percentage of wage replacement required at the lock-in decision has decreased.

Measuring service excellence

The WSIB has improved how it measures customer satisfaction. A new customer perception framework was developed and implemented in 2011. The new framework uses annual Reputation Indexes and quarterly Program and Service Excellence Indexes to provide insight into how our customers perceive us. The 2011 annual survey found that close to 80% of employers were very or somewhat satisfied with the service they received for claims or account management, and 7 out of 10 workers were very or somewhat satisfied with the service they received for claims. Results from 2011 and 2012 will establish a baseline to measure future improvements.

Summary

Results for 2011 indicate we are on the right path. A significant, positive change in outcomes for employers and workers has already been achieved. Our outcomes are now comparable to those in other leading jurisdictions, we're meeting high performance standards, and we expect even better outcomes in the future.

For more details of our operational outcomes, please see Management's Discussion and Analysis, Section 2, Year in Review, page 14 below.

Annual research priorities and findings

Research priorities

In 2011, the WSIB Research Advisory Council (RAC) funded 19 new research projects for a total of $1.941 million. Projects include:

- A study of innovative ways to monitor and measure risk factors for occupational cancers in different occupations and industries;
- A study of opioid prescribing patterns among injured workers and their impact on work; and
- A comparative study of the differences between claims that result in lost time compared to claims that don't.

Research findings

Fifteen RAC-funded projects delivered their final reports in 2011. These included:

- A study of immigrant worker experiences after work-related injuries and illnesses;
- A study of changes in claims persistence (duration) from 1990 to 2004, including an investigation of the effects of policy changes associated with the introduction of the Workplace Safety and Insurance Act in 1998; and
- A study of work related injuries among young part-time workers.

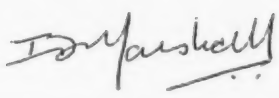
Detailed information about our research priorities and findings is available on the WSIB website.

Management's Responsibility for Financial Reporting

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and the consolidated financial statements have been prepared by management and approved by the Board of Directors of the Workplace Safety and Insurance Board ("WSIB"). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"), and where appropriate, reflect management's best estimates and judgment. Where alternative accounting methods exist, management has chosen those methods considered most appropriate in the circumstances. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality of internal controls. Management is also responsible for the preparation and presentation of additional financial information included in the Annual Report and ensuring its consistency with the consolidated financial statements.

The Audit & Finance Committee of the Board of Directors meets with management as well as with the independent auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and reviews the consolidated financial statements and the independent auditor's report. The Audit & Finance Committee also reports its findings to the Board of Directors for consideration in approving the WSIB's Annual Report and its submission to the Minister of Labour (the "Minister") pursuant to a Memorandum of Understanding between the Ministry of Labour of the Province of Ontario (the "Province") and the WSIB.

The consolidated financial statements have been examined by the WSIB's independent auditors, KPMG LLP, Chartered Accountants, and their report is provided herein.



I. David Marshall

President and Chief Executive Officer

April 17, 2012

Toronto, Ontario

Lawrence E. Davis

Chief Financial Officer

Management's Discussion and Analysis

Table of Contents

	Page	Description
1. First Reporting Year Under IFRS	14	*An explanation of our first reporting year under IFRS.*
2. Year in Review	14	*A summary of our performance for the year ended December 31, 2011 compared to 2010.*
3. Our Business	16	*An overview of our business.*
4. Our Strategy	21	*A summary of our Strategic Plan.*
5. Operating Results	21	*A discussion of our operating results for the year ended December 31, 2011 compared to 2010.*
6. Financial Condition	30	*A discussion of the significant changes in our December 31, 2011 consolidated statement of financial position.*
7. Summary of Quarterly Results	31	*A summary view of our quarterly financial performance.*
8. Liquidity and Capital Resources	32	*A discussion of cash flow, liquidity, credit facilities and other arrangements.*
9. Critical Accounting Estimates and Judgments	34	*A description of our accounting estimates that are critical to determining our financial results and changes to accounting policies.*
10. Recent Accounting Pronouncements	35	*A discussion of IFRS developments that have, will, or might affect the WSIB.*
11. Outlook	37	*The outlook for our business.*
12. Risk Factors	39	*A discussion of the more significant risk factors affecting our business.*
13. Related Party Transactions	42	*A discussion of related party transactions and their relationship to our business.*
14. Forward-looking Statements	43	*Caution regarding forward-looking statements.*

1 First Reporting Year Under IFRS

An explanation of our first reporting year under IFRS.

The year ended December 31, 2011 MD&A reflects our adoption of IFRS as issued by the International Accounting Standards Board ("IASB"). The comparative figures as at December 31, 2010 and January 1, 2010 and for the year ended December 31, 2010 have been restated to comply with IFRS.

Note 24 - Transition to IFRS, to the accompanying audited consolidated financial statements contains a detailed description of our conversion to IFRS, including accounting policies adopted and a line-by-line reconciliation of our consolidated financial statements previously prepared under Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to those under IFRS for the year ended December 31, 2010 and as at December 31, 2010.

The adoption of IFRS resulted in an increase in the total deficiency of assets of $139 million as at January 1, 2010, the date of our opening IFRS consolidated balance sheet.

2 Year in Review

A summary of our performance for the year ended December 31, 2011 compared to 2010.

Financial highlights

- We achieved our first operating surplus in 10 years, as a result of strong operating results, which has helped to stabilize the unfunded liability. Comprehensive income was $403 million, a $789-million improvement compared to 2010. These results are prior to reflecting a $2.1 billion non-cash provision to reduce our discount rate, and a $51 million reserve against the impairment of our case management software.
- For the first time since 1997, we did not have to draw from our Investment Fund to help cover the costs of our operations. Prior to 2011, average annual withdrawals had been approximately $500 million since 1997, with a total of $6 billion in investments being liquidated to fund operating needs during this period.
- Fewer lost time claims and continued improvements in return to work and recovery outcomes for injured workers have led to a $217 million, or 7.1% reduction in benefit costs paid, the second year of decline after 10 consecutive years of increases.
- We continued to bring premium rates in-line with costs. Our premium rate increase in 2011 resulted in $144 million additional premium revenues.

2011 results have brought stability to the system for the benefit of all

Across all major performance indicators, we achieved significant improvement in 2011; the long-standing trend of increasing benefit payments prior to 2010 has been reversed through better outcomes for injured workers.

In 2011 we reconfirmed our mandate as a workplace compensation board, and our focus on restoring workers as closely as possible to where they were before injury, while supporting employers in restoring their businesses to full productivity. This emphasis on the fundamentals – claims management, health care, and return to work – has improved outcomes for injured workers while reducing benefits costs.

Better care for injured workers means better results for all

Between 1996 and 2009, claims registered with us fell by 28%, more than 96,000 fewer injuries, while annual benefit payments increased by over 48% or $1.0 billion, during the same period. This was matched by over a decade of worsening results – with increasing claims duration rates and more permanent impairments, indicative of poorer recovery and return to work outcomes for injured workers.

- With the introduction of our new Service Delivery Model in 2009, enhanced WSIB-managed work reintegration, and a proactive health care strategy, we've returned to sound, effective, and proven

approaches to managing our business. As a result, in 2011 91% of all injured workers with lost time injuries were back to work within 12 months of their injury, resulting in less time on benefits.

- Some 4,000 fewer workers in 2011 experienced a permanent impairment, meaning the percentage of injured workers receiving permanent impairment awards has dropped from a high of 12.4% in 2005 to 10.3%.
- After years of increases, long term claims duration rates are holding steady. Improved return to work outcomes, means fewer claims are requiring a locked-in loss of earnings award, and for those that do, the percentage of wage replacement required has also decreased.

We are providing better support for return to work

Some 300 staff are now directly involved in providing return to work services, and in 2011 made over 21,000 visits to workplaces to help employers and workers achieve a return to work for the injured worker.

Our earlier involvement, collaborative approach and more focused return to work programs are increasing the number of workers able to successfully return to work with their employer and/or transition to new occupations. The success rate for workers achieving re-employment has increased from 36% under the old labour market reentry (LMR) program, which was in place from 1998 to 2009, to 74% in 2011, after completion of the new Work Reintegration Program.

Injured workers are getting better health care

We continue to focus on early, specialized, evidence-based health care to improve recovery. Early intervention means workers receive the care they need, and health programs are integrated with injured workers' return to work plans. In 2011, we:

- more than doubled the number of Specialty Clinics for injured workers – from 15 to 35; and
- introduced external contract physicians to review case files and provide expert medical opinions with significantly reduced time to services.
- introduced a specialized program of care for low back injuries, and developing new approaches for other high impact injuries, including shoulders and fractures.

A better approach to the use of narcotics, such as oxycontin, in the treatment of injured workers has also improved recovery times and claims duration. For workers who need pain relief drugs in the first three months after injury, we now provide alternative drugs and treatments to prevent the harmful effects of long-acting narcotics.

Adjudication is faster and better

Initial claims decisions are being made faster with no loss of quality. Specialized eligibility adjudication has allowed for 87% of eligibility decisions to be made within two weeks in 2011, compared with 65% in 2008. Faster decisions mean more timely access to services to assist workers with their return to work and recovery, and any benefits payments to compensate for lost wages. There are also fewer claims being abandoned by injured workers who may have found the older processes more frustrating. We have invested significant time and effort to ensure the quality of our eligibility decisions, through management oversight and reviews.

The pace of change at the Board is accelerating

In 2011 we began to see the positive results of our focus on the fundamentals. We are providing quality services to the workers and employers of the province and we are moving toward financial sustainability.

Professor Harry Arthurs has completed his funding review of the province's workplace safety and insurance system, and has now made his recommendations to the WSIB's Board of Directors and Minister of Labour. We expect Professor Arthurs' findings to result in profound changes, further improving the way we deliver our services to injured workers and employers.

3 Our Business

An overview of our business.

Our mandate and how we are governed

We administer the province's no-fault workplace insurance system for Ontario workplaces. The WSIB provides wage loss benefits, medical coverage and help getting back to work for workers injured on the job or contracting occupational diseases. For employers, we provide no-fault collective liability insurance and access to industry specific health and safety information.

We are legislated by the Provincial Government of Ontario and are responsible for administering the Workplace Safety and Insurance Act, 1997 ("WSIA"). We are funded by employer premiums, and to a lesser degree, income earned on our investments. The province does not provide us with any funding. We are a trust agency and are governed by an independent Board of Directors made up of representatives from employers, workers and others.

How we derive our income

The WSIA classifies most employers in one of 154 rate groups, pursuant to Regulation 195/98, under the WSIA based on the nature of their business activity. These employers are referred to as Schedule 1 employers and remit premiums to us based on their insurable payroll multiplied by a premium rate that is unique to their rate group and is calculated as dollars per $100 of insurable payroll.

In 2011, approximately 240,000 employers employing more than four million individuals, or approximately 70% of the province's labour force were classified as either Schedule 1 or Schedule 2 employers. Unlike most other provincial worker compensation boards that operate on the basis that employers are subject to the applicable provincial worker compensation scheme unless they are in industries that are excluded, the WSIA, excludes employers from paying premiums unless specifically included in the WSIA.

Employers classified under Schedule 2 of Regulation 195/98 of the WSIA are self-insured and include federal and provincial governments and their agencies, municipalities and school boards, and certain other enterprises such as major railways with operations within the province. We administer injured worker claims and return to work programs for these organizations and in return receive a reimbursement of the cost of claims that we administer and an administrative charge to cover a portion of our overhead. In 2011, we administered $277 million of payments for more than 377 Schedule 2 employers who had 64,794 injured worker claims.

Between 1996 and 2009, a period of 13 years, our average premium rate decreased by 25% at the same time as benefit payments rose by more than 48%, generating a cumulative shortfall of revenues over expenses, excluding the impact of benefit liabilities changes, exceeding $2.0 billion. In order for us to return to financial sustainability, it is imperative that we set our premium rates at levels that are fair to employers and allow us to fully recover our current costs and make inroads to reduce our unfunded liability, which stood at $14.2 billion at December 31, 2011.

A significant factor in the decision to reduce or keep premiums stable has been the desire to not unduly burden the province's employers. While beneficial in the short-term, this strategy has had the opposite effect over the long-term. Our average premiums today continue to be one of the highest in the country as a result of not charging sufficient premium rates over many years and now requiring employers to service what amounts to a $14.2 billion loan, bearing interest at roughly 6.0% annually on account of our unfunded liability.

In December 2010, Bill 135 was passed, and when proclaimed, will require us to be sufficiently funded. Only with a steady and concerted effort can sufficient funding be achieved.

Our employer incentive and cost relief programs

We offer several incentive and cost relief programs that adjust employer premium rates based on their health and safety records, thereby rewarding employers for above average claims experience and penalizing other employers with below average claims experience. Our employer incentive and cost relief programs are summarized below:

- CAD-7 (Council Amended Draft #7) encourages and improves safety in the workplace and more closely relates employer premiums to accident experience. CAD-7 applies to employers in the construction industry with more than $25,000 of average annual premiums.
- NEER (New Experimental Experience Rating) provides premium refunds and levies surcharges based on an employer's accident cost experience in order to promote safer workplaces. NEER applies to all Schedule 1 employers other than those in the CAD-7 program with more than $25,000 in average annual premiums.
- Merit Adjusted Premium (MAP) program modifies smaller employers' premium rates based on their claims experience and applies to employers with between $1,000 and $25,000 in average annual premiums.
- Workwell allows us to review the health and safety performance of registered employers and identifies employers for an evaluation of their safety procedures based on their past safety and cost performance. We assess their procedures by carrying out a health and safety audit. If the initial audit score is less than 75%, the employer has six months to take corrective measures, after which the employer is re-evaluated. If the employer scores below 75% again, we apply a premium surcharge based on the extent and seriousness of the health and safety shortfalls ranging from 10% to 75% of the employer's annual premiums, to a maximum of $500,000.
- Safe Communities Incentive Program (SCIP) is a two-part health and safety incentive program for small businesses and is designed to create a greater awareness of health and safety risks in the workplace and a better understanding of small businesses legal requirements under both the WSIA and the Occupational Health and Safety Act ("OHSA"). SCIP applies to employers paying $90,000 or less in annual premiums, who are not part of the Safety Groups Program and have not participated in SCIP in the past.
- Safety Groups Program (SGP) is a voluntary five-year program rewarding employers who implement effective health and safety and return to work measures. Upon successful completion of the program, participating employers are eligible to receive a portion of the 6% maximum rebate of group premiums made to the safety group. These rebates are over and above any rebates or surcharges under any other experience rating programs offered and are determined based on criteria set in advance by the safety group sponsor. Although participation is voluntary, 3,240 employers were registered in 38 safety groups in 2011.
- Second Injury Entitlement Fund (SIEF) is a cost relief program available to Schedule 1 employers. The program allows employers participating in an experience rating program to receive cost relief for all or a portion of a reported claim if a prior disability contributed to a workplace injury or if a pre-existing condition enhanced or prolonged a work-related disability. Under such circumstances, all or part of the claim costs would not be included in the employers record for experience rating purpose. While SIEF provides employers enrolled in experience rating programs with financial relief, its primary purpose is to encourage employers to hire workers with disabilities.

Investments

Our governance process

We invest the premiums collected but not required to be paid to or on behalf of injured workers in the year of their injury. At December 31, 2011, we held $13.7 billion to be invested to fund future benefits. It is therefore incumbent on us to invest these funds in a prudent manner while seeking to not only preserve capital, but also generate income until the funds are required to pay benefits for the injured worker.

A summary of our governance process to safeguard our investments and an explanation of the asset classes we invest in is as follows:

- Our governance process establishes the oversight for determining how we invest our funds and the safeguards put in place to monitor our investments. Our governance process begins with an annual review of our Strategic Investment Plan (SIP). Our SIP is designed to provide a diversified

source of investment income within an acceptable level of risk, commonly referred to as volatility. In accordance with best practices, our SIP is reviewed no less than annually by our Investment Committee, which includes an independent group of investment experts and is then reviewed and approved by our Board of Directors. Our SIP seeks to lower the variability of our investment returns over time while maintaining an acceptable rate of return, thereby providing funding for benefits for injured workers.

- Our governance framework operates in accordance with best practices for good governance. Investment decisions that have the most impact on investment outcomes remain at the Board of Directors level, such as our investment beliefs, establishing our overall governance framework and approving our Statement of Investment Policies and Procedures. With appropriate reporting and oversight, the Board of Directors delegates certain investment decisions to our Investment Committee and our senior management. The Investment Committee is appointed by the Board of Directors and consists of Board members who have the requisite degree of financial expertise and external advisers with sufficient knowledge and skill to advise on the development and implementation of our investment strategy.
- The Investment Committee approves our primary investment policies as well as the hiring of investment agents. Within well-defined investment mandates, security selection decisions are delegated to external managers consistent with our belief that external investment management is more compatible with our objectives. Our investment program is executed and monitored by senior staff members under the direction of our President and Chief Executive Officer, Chief Investment Officer, Investment Committee and ultimately, our Board of Directors.
- Risk is inherent in each element of the investment decision making process; hence, risk measurement is an integral component of our governance program. We believe the most significant risks to which we are exposed include credit, liquidity and various market risks. A discussion of our investment risks and mitigating strategies are contained in Note 21 to the consolidated financial statements. Additionally, we use various financial and non-financial models to assess, measure and monitor risk and we are planning to implement a robust investment risk management system in 2012.

What we invest in

We invest in a wide range of assets to provide a target level of return over the long run given the level of risk we are prepared to assume. A brief summary of the asset classes we invest in include:

- *Equities.* We invest in a diversified portfolio of domestic and international equities to provide broad equity market exposure. Equities are expected to provide higher investment returns than other asset classes over the long run, but exhibit a large degree of variability in returns from year to year.
- *Bonds.* Our government and corporate bond portfolio is designed to track the performance of the broad Canadian bond index. Bonds provide diversification and liquidity, particularly when economic conditions are weak, or when market or economic shocks precipitate a flight to lower risk investments.
- *Real Estate.* We invest in office, retail and industrial properties located throughout Canada. Real estate provides us with a predictable source of income and is expected to keep pace over time with inflation, both beneficial attributes.
- *Infrastructure.* Our infrastructure assets consist of a portfolio of global business and social service assets providing essential services, typically under long-term contracts. Infrastructure assets generally offer stable long-term cash flows, which typically incorporate hedges against inflation. Like real estate, the long-term inflation sensitivity of infrastructure assets provide investors attractive attributes by keeping pace with inflation.
- *Total Return.* Our total return portfolio consists of alternative investment strategies that utilize a broad array of techniques to earn equity-like returns, with lower levels of variability associated with public equities. These strategies tend to be more complex than traditional strategies and require greater management oversight. Our belief and experience is that these strategies are effective at providing attractive returns at a lower level of return variability.

Benefit Costs

Provision for claims

On a quarterly basis, we establish a liability for the estimated future payments of claims related to injured workers. This liability represents the present value of the expected future cost to satisfy all claims, including occupational disease claims, occurring prior to, but still outstanding as at the consolidated balance sheet date and consists of liabilities for reported claims, liabilities for claims that have been incurred, but not yet reported ("IBNR") claims and a provision for future occupational disease claims arising from incurred exposures to hazardous substances or conditions such as asbestos and excessive noise.

When estimating our cost of claims, we consider the facts available to us at the time the liability is established as well as other factors that can influence the amount and timing of future payments, some of which are based on historical trends and patterns as well as current expectations of how future events may unfold. Additionally, economic conditions may affect the ultimate cost of a claim, and as a result, the estimation of the benefit liability. Between the reporting and final disposition of a claim, circumstances may change which may result in changes to the established liability. For example, changes in the WSIA or medical costs could substantially impact the ultimate cost of a claim. Accordingly, we review and re-evaluate claims and their impact on the estimate of the benefit liability on a regular basis. Any resulting adjustments are recorded in the consolidated statement of comprehensive income in the period as an adjustment to the benefit liability.

Our estimation of the costs necessary to settle injured worker claims is a complex process. We review our own historical claims experience as well as those from external sources, the terms and conditions of relevant sections of the WSIA, our governing legislation, as well as our policies, claims adjudication practices and appeal decisions. Particularly relevant are historical payment patterns and trends with similar cases. We also consider the development of future claim payment trends, which may be impacted by management actions, legislative changes, judicial decisions and economic conditions. Where possible, we apply multiple techniques in estimating the required benefits liability provisions. This approach recognizes the limitations in some of the data, but more importantly, provides additional insight into the trends inherent in the claims data being used to project the future payments valued in the benefits liability.

In addition to common injuries such as cuts and broken bones, we make provisions for probable future claims for workers who have been exposed to hazardous substances or conditions in their workplaces, which may lead to future occupational disease claims. These provisions are significant and are expected to increase in future years due to increased incidence, the increasing age of the province's workforce and increases in benefit costs. The uncertainty arising from possible future outcomes of workplace injuries means we must consider several factors, including whether an event has occurred that would give rise to an injured worker suffering an approved compensable loss, the amount of compensable loss suffered by an injured worker as a result of an approved claim, and the time necessary to rehabilitate and return the injured worker to work or to continue to pay the claim. The degree of uncertainty will vary depending on the type and characteristics of the injury, and the timing and management of the claim, which includes working with the injured worker, the employer and the health care system. Additionally, there may be significant reporting lags between the occurrence of a compensable injury and the time it is reported to us. Establishing benefit liabilities is an inherently uncertain process and as a consequence of this uncertainty, the eventual cost to satisfy outstanding claims can vary substantially from the initial estimates, particularly for occupational disease claims.

The provision for benefit liabilities is determined by our Chief Actuary. As time passes, more information about the claim becomes known and provisional estimates are consequently adjusted upward or downward. Because of the elements encompassed in the claims valuation process, and the time it takes to settle many of the more costly claims, several years may be required before a meaningful comparison of actual losses to the original provisions can be developed. The development of the provision for claims is the difference between estimates of reserves as of the initial or in-year injury and the re-estimated liability at each subsequent year-end. This estimate is based on actual payments, plus re-estimates of the reserves required for claims still open and claims that remain unreported. The benefit liability includes the current estimate of future payments related to claims incurred during 2011 and all prior years. In each

reporting period, the benefit liability is adjusted for changes in the estimate of the future payments and the change in estimate is recognized in benefit costs.

Types of benefit payments

In accordance with the WSIA and predecessor legislation, we provide benefits for loss of earnings, non-economic loss benefits for permanent impairments, payments for future economic losses, payments for health care expenses, assistance to facilitate an injured worker's return to work, contributions to an injured worker's loss of retirement income if they remain disabled for more than 12 months, worker's pensions and survivor benefits in cases of work-related fatalities. Each type of benefit is described in more detail below:

- Loss of earnings benefits represents reimbursement of a portion of an injured worker's earnings for time lost from work due to a work-related injury or illness occurring subsequent to 1998. Loss of earnings benefits start from the day after the injury or illness occurred and are based on the worker's pre-injury earnings up to a maximum of 85% of the workers pre-injury net average earnings, subject to legislated minimum and maximum amounts of compensation. A partial loss of earnings benefit is provided when a portion of 85% of the worker's pre-injury net average earnings is payable from other sources such as the injured worker's employer. The loss of earnings benefit continues until the earliest of: (i) the day on which the injured worker's loss of earnings ceases; (ii) the day on which the injured worker reaches 65 years of age, or if the worker was less than 63 years of age on the date of the injury, two years after the date of injury; or (iii) the day on which the injured worker is no longer impaired as a result of the injury.
- Non-economic loss benefits represent compensation to a worker who suffers a permanent impairment as a result of an injury based on the severity of the permanent impairment.
- Future economic loss benefits represent compensation to a worker, who was injured after January 1, 1990 and prior to January 1, 1998 and suffers a workplace injury resulting in a permanent impairment or temporary disability for 12 continuous months.
- Health care costs represent payments for professional services provided by health care practitioners, hospitals and health facilities as well as the cost of drugs, attendant services, home or vehicle modifications, assistive devices and prostheses, extraordinary transportation costs to obtain health care and other measures to improve the quality of an injured worker's life.
- External provider costs associated with the reintegration program represent payments to external agencies providing rehabilitation services, such as training programs to assist an injured worker's return to work and the costs of work transition assessments and plans, in the case of injured workers not returning to work with their pre-injury employer.
- Loss of retirement income benefits represent benefits payable to an injured worker who has received loss of earnings payments for 12 continuous months or FEL benefits and was under the age of 64 at the date of injury. At age 65, the injured worker receives a retirement benefit from contributions made to their Loss of Retirement Income account plus any investment income earned.
- Worker pensions represent pensions for injured workers suffering a workplace injury prior to January 1, 1990 based on the degree of the injured worker's disability.
- Survivor pensions represent monthly benefits provided to a spouse, dependent children and other dependants when an injured worker suffers a fatality in the workplace or as a result of an occupational disease.

Administration and other expenses

Administration and other expenses include the expenses necessary to support our various business activities.

Legislated obligations and commitments

We are required by the WSIA to fund the administration of various organizations including Health and Safety Associations, Workers Health & Safety Centre, Occupational Health Clinics for Ontario Workers,

the Office of the Worker Advisor, the Office of the Employer Advisor, the Workplace Safety and Insurance Appeals Tribunal, ("WSIAT"), and programs under the OHSA. The Ministry of Labour is responsible for providing stakeholders with information related to how the funding provided by the WSIB has been used to generate value in the system. In 2011, these obligations and commitments were $228 million, or $0.14 per $100 of premiums representing 6.0% of our average published premium rate of $2.35 ($227 million, or $0.14 per $100 of premiums representing 6.1% of our average published premium rate of $2.30 in 2010).

4 Our Strategy

A summary of our Strategic Plan.

Our *2012 - 2016 Strategic Plan* (the "Plan") confirms our vision and values, and sets our strategic direction for the next five years. The Plan takes a balanced approach to supporting injured workers as they recover and return to work, while achieving sufficient funding.

Our vision –"To be the leading workplace compensation system" – acknowledges the need to transform the WSIB into a modern organization, while reaffirming our commitment to the founding Meredith principles. Our value proposition – "Getting you back to what matters" – means that, when a workplace injury or illness occurs, we are focused on making it easy for employers to get back to full productivity while supporting workers' recovery and a return to work. Our values are "Trust, Integrity and Fairness." We must fulfill our responsibility as an independent trust organization by making the hard decisions and the changes necessary to strengthen our financial position.

The Plan is organized around five strategic pillars:

- *Sufficient funding*. We will keep our focus on ensuring sufficient funding is maintained to meet our policy goals.
- *Revenues must cover costs*. We will optimize our premium and investment revenues as critical measures of fiscal health.
- *Right sizing costs*. We will reduce benefit costs by promoting early recovery and return to work, contributing to employer incentives, and funding prevention initiatives.
- *Efficient administration*. We will keep administrative costs in line with budgets through increased diligence.
- *Stakeholder relationships and service excellence*. In every interaction, we will deliver the best customer service and achieve the highest ever customer satisfaction.

Our Plan reflects the results of our in-depth analysis of the causes of our unfunded liability and the findings and recommendations of the 2009 Annual Report from the province's Auditor General. It features strategies to make us a more modern organization. The processes and technology that exist today will be enhanced or replaced with new solutions such as integrated recovery and return to work programs, expanded online services, and enhanced data analytics capabilities. Our people will be significantly re-skilled and refocused and we will be a leaner, more efficient and effective organization.

We believe strongly in the need to preserve a strong and sustainable workplace compensation system for generations to come. We will accomplish this by adhering to our founding principles, our mandate and the strategic direction as outlined in the Plan.

5 Operating Results

A discussion of our operating results for the year ended December 31, 2011 compared to 2010.

This section provides a detailed discussion of our financial performance. Certain prior year's figures have been reclassified to conform to the current year's presentation. Additionally, our consolidated financial

statements have been prepared in accordance with IFRS. All amounts herein are in millions of Canadian dollars unless otherwise specified.

Financial highlights

The following table sets forth our annual operating results for the years ended December 31:

			Change	
($ millions)	**2011**	**2010**	**$**	**%**
Revenues				
Premiums	3,876	3,507	369	10.5
Net investment income (loss)	296	1,207	(911)	(75.5)
	4,172	4,714	(542)	(11.5)
Expenses				
Benefit costs				
Benefit payments	2,850	3,067	217	7.1
Claim administration costs	368	342	(26)	(7.6)
Changes in actuarial valuation of benefit liabilities	2,040	1,100	(940)	(85.5)
	5,258	4,509	(749)	(16.6)
Loss of retirement income fund contributions	70	73	3	4.1
Administration and other expenses	324	291	(33)	(11.3)
Legislated obligations and commitments	228	227	(1)	(0.4)
	5,880	5,100	(780)	(15.3)
Comprehensive loss for the year	**(1,708)**	**(386)**	**(1,322)**	**(342.5)**
Consolidated Statement of Cash Flows				
Cash provided (required) by operating activities	99	(233)	332	142.5
Other measures				
Unfunded liability[1]	(14,199)	(12,438)	(1,761)	(14.2)
Funding ratio[2]	52.2%	54.7%	(2.5%)	(4.6)
Return on investments[3]	2.3%	9.6%	(7.3%)	(76.0)

[1] Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders.

[2] Funding ratio is calculated as total assets, excluding non-controlling interest in pooled investments, divided by total liabilities.

[3] Return on investments is calculated as the change in the fair value of investments net of capital contributions and withdrawals.

Premiums

Premiums were $3,876 million compared to $3,507 million, an increase of $369 million or 10.5% and are segmented as follows:

($ millions)	2011	2010	Change	
Gross premiums	3,794	3,413	381	11.2%
Schedule 2 administration charge	62	58	4	6.9%
Other income	2	2	-	0.0%
Experience rating refunds, net	(25)	(20)	(5)	25.0%
Interest and penalties	43	54	(11)	(20.4%)
Net premiums	**3,876**	**3,507**	**369**	**10.5%**

Gross premiums increased by $381 million or 11.2% reflecting $237 million attributed to a 4.7% increase in insurable payroll as detailed below and $144 million attributed to our increase in the average premium rate charges to employers in 2011. A comparison of employment, insurable payroll and gross premiums for the twelve months ended December 31, 2011, along with the percentage change from the prior year is as follows:

	Employment		Insurable Payroll		Gross Premiums	
($ millions)	#	Change	$	Change	$	Change
Industry						
Agriculture	49,896	0.2%	1,714	3.6%	67	11.7%
Automotive	131,997	9.2%	6,451	5.3%	216	19.5%
Construction	295,393	5.1%	14,656	6.9%	906	10.6%
Education	151,091	10.4%	6,276	4.6%	26	9.2%
Electrical	93,870	3.0%	5,230	5.9%	52	9.7%
Food	128,186	1.4%	4,678	1.7%	130	7.7%
Forestry	8,620	(8.6%)	361	(3.3%)	33	9.8%
Health care	461,115	2.2%	20,747	3.6%	313	13.3%
Manufacturing	919,342	5.1%	34,861	5.6%	592	7.9%
Mining	31,130	14.2%	1,878	22.2%	121	23.2%
Municipal	41,258	0.6%	1,931	4.7%	42	21.1%
Primary metals	28,467	1.2%	1,639	4.8%	46	11.9%
Process and chemicals	99,016	(6.1%)	4,315	1.7%	80	10.3%
Pulp and paper	17,223	20.1%	749	(0.4%)	22	10.5%
Services	1,432,459	1.0%	42,886	4.0%	678	7.9%
Transportation	231,162	3.4%	9,110	4.6%	412	15.5%
Total	**4,120,225**	3.0%	**157,482**	4.8%	**3,736**	11.2%
Premiums accrued but not reported			1,004	(3.1%)	58	7.0%
Total			**158,486**	**4.7%**	**3,794**	11.2%

Average premium rates

As communicated to employers in 2010, we increased our average published premium rate by 2% from $2.30 per $100 of insurable payroll in 2010 to $2.35 in 2011, thereby allowing us to partially offset the increased costs of providing benefits to injured workers and the impact of inflation. This increase in average premium rates, along with several management initiatives such as our work transition efforts and improved management of relief under our SIEF program allowed us to offset our increased costs.

Between 2007 and 2010, our actual premium rates realized were between 1.0% and 3.0% below the average published premium rate for that year, resulting in a cumulative shortfall of $264 million of revenues. In 2011, we collected $2.37 per $100 of insurable payroll, slightly in excess of the average

published premium rate of $2.35, but not fully recovering the previous years' accumulated deficit of expected premiums. The improvement in 2011 reflects stronger than anticipated growth in the automotive, construction, manufacturing and transportation industries.

A comparison of targeted and average premium rates collected for each of the past five years is noted below:

	Average Premium Rate (per $100 of insurable payroll)			Variance to Premiums Expected ($ millions)	
	Target	Actual	Variance	Year	Cumulative
2007	2.26	2.24	(0.02)	(28)	(28)
2008	2.26	2.23	(0.03)	(44)	(72)
2009	2.26	2.20	(0.06)	(94)	(166)
2010	2.30	2.23	(0.07)	(98)	(264)
2011	2.35	2.37	0.02	35	(229)

Schedule 2 administration charges increased by $4 million or 6.9% as a result of the increased administrative costs associated with in-sourcing our work reintegration efforts.

Other income of $2 million (2010 - $2 million) was unchanged and represents primarily interest earned on our operating cash balances during the year.

Experience rating refunds, net were $25 million, an increase of $5 million or 25% primarily reflecting higher CAD-7 rebates.

Interest and penalties represent charges levied to employers on account of late payment of premiums and regulatory fines and decreased by $11 million or 20.4% over the prior year reflecting the province's strengthening economy in 2011.

Net investment income

In 2011, we generated $296 million of net investment income representing a 2.3% rate of return, below our long term target return of 6.0%, attributable to weak capital markets globally. When looking at our investments over a time horizon of 10 to 15 years, our returns ranged from 4.6% to 6.1%.

In 2011, equity markets remained weak due to worldwide economic uncertainty and only began to recover in the fourth quarter as investors responded to early signs of an economic recovery in the United States and an increased consensus that the European sovereign debt crisis may soon be resolved. We also saw leading central banks continue to provide liquidity by reducing interest rates to spur economic activity, and as a result, bonds and other investment classes such as real estate and infrastructure performed well.

A summary of investment income, segmented by asset class and asset values for the years ended December 31, 2011 and 2010 is as follows:

	Year ended December 31, 2011				Year ended December 31, 2010			
Asset Class	**Investment income**	**Return (%)**	**Asset value**	**%**	**Investment income**	**Return (%)**	**Asset value**	**%**
Fixed income	433	9.7	5,064	32.4	308	6.8	5,063	33.3
Public equities	(440)	(7.0)	6,702	42.9	713	9.9	7,616	50.0
Total return	200	10.7	2,402	15.4	105	17.3	1,302	8.5
Real estate	180	13.9	1,212	7.7	163	14.7	1,060	7.0
Infrastructure	10	7.7	173	1.1	-	-	127	0.8
Interest on operating funds	3	-	1	0.0	2	-	-	0.0
Benefit annuities	-	-	74	0.5	-	-	67	0.4
	386	2.3	15,628	100.0	1,291	9.6	15,235	100.0
Investment expenses	(90)				(84)			
Net investment income	296				1,207			

Benefit costs

Benefit costs consist of: (i) benefit payments to or on behalf of injured workers; (ii) claim administration costs, which represent an estimate of our administration costs necessary to support benefit programs; and (iii) the change in the actuarial valuation of our benefit liabilities, which represent an adjustment to the actuarially determined estimates for future claim costs existing at the date of the consolidated statement of financial position. Total benefit costs were $5,258 million, an increase of $749 million, or 16.6% as follows:

			Change	
($ millions)	**2011**	**2010**	**$**	**%**
Benefit payments	2,850	3,067	(217)	(7.1)
Claims administration expense	368	342	26	7.6
Changes in actuarial valuation of benefit liabilities	2,040	1,100	940	85.5
Total benefit costs	5,258	4,509	749	16.6

Benefit payments

Benefit payments represent cash paid during the year to or on behalf of injured workers and are detailed by category as follows:

			Change	
($ millions)	**2011**	**2010**	**$**	**%**
Loss of earnings	1,069	1,117	(48)	(4.3)
Worker's pension	678	701	(23)	(3.3)
Health care	468	497	(29)	(5.8)
Future economic loss	278	292	(14)	(4.8)
Survivor benefits	172	178	(6)	(3.4)
External providers	86	151	(65)	(43.1)
Non-economic loss	88	126	(38)	(30.2)
Other benefit costs	11	5	6	120.0
Benefit payments	2,850	3,067	(217)	(7.1)

A summary of the changes in benefit payments for 2011 is as follows:

- Loss of earnings benefits were $1,069 million compared to $1,117 million, a reduction of $48 million or 4.3% reflecting fewer claims and improved claims management.
- Worker's Pensions were $678 million compared to $701 million, a reduction of $23 million or 3.3% primarily due to mortality.
- Health care costs were $468 million compared to $497 million, a decline of $29 million or 5.8% due to fewer claims and better management of health care costs.
- Future economic loss benefits were $278 million compared to $292 million, a reduction of $14 million or 4.8% reflecting a greater number of injured workers reaching the age of 65 (the point at which these benefits end).
- Survivor benefits were $172 million compared to $178 million, a reduction of $6 million or 3.4% reflecting a lower number of traumatic and occupational-disease fatalities.
- External provider costs for work reintegration services were $86 million compared to $151 million, a decline of $65 million or 43.1% reflecting our decision to in-source work-transition and return to work activities. After taking into account the costs to in-source these initiatives, we achieved a $44 million net savings while generating better outcomes for injured workers.
- Non-economic loss awards were $88 million compared to $126 million, a reduction of $38 million or 30.2%, reflecting fewer claims, a reduction in the percentage of permanent impairments experienced, and improved return to work outcomes.
- Other benefit costs were $11 million compared to $5 million in 2010, an increase of $6.0 million or 120% reflecting lower asbestos related settlements.

Claims administration expenses

Claims administration expenses were $368 million compared to $342 million, an increase of $26 million or 7.6%, primarily due to the in-sourcing of work reintegration, which had been outsourced to third party providers since 1998. This increase was offset by $65 million of lower payments to external service providers and increased return to work outcomes for injured workers returning to meaningful employment with their pre-injury employers.

Changes in actuarial valuation of benefit liabilities

Changes in the actuarial valuation of benefit liabilities represent the financial impact of the change in assumptions concerning the cost to settle future injured worker claims. In 2011, we increased our estimate by $2,040 million or 8.4% to $26,390 million of which $2,060 million was attributable to a reduction in the interest rate we use to discount our benefit liabilities, which we refer to as our discount rate. The remaining $20 million reflects a reduction in the estimated liability for existing claims. We discount our benefit liabilities at the rate we expect our investments to grow. For example, if we assume our investments will grow by 5.5%, we would discount our benefit liabilities by 5.5% for each year that we expect the liability to be outstanding. Since 1994, we have discounted our liabilities at 7.0% per annum to reflect their present value, based on our assessment that our investments would, on average grow by 7.0% per annum over a 10 to 15-year period. In 2011, the long-term interest rate on Canadian bonds continued to decline as the economic outlook for major economic markets continued to display modest growth. We therefore undertook a comprehensive review of our discount rate with the assistance of a leading actuarial consulting firm and considered our investment returns experience and expectations over the short and long-term, our investment strategy, the effect of active investment management and the expected future long-term investment returns under various scenarios. Our review also considered the discount rate assumptions used by other Canadian workers compensation boards, large Ontario-based pension plans, the Canada Pension Plan and recent trends. Our study suggested that a discount rate in the range of 5.6% to 6.4% was appropriate. We then considered the worsening economic conditions in 2011, combined with lower anticipated investment returns for the next few years and concluded it would be appropriate to reduce our discount rate from 7.0% per annum to 5.5% per annum for the period 2012 to 2015 and increasing to 6.0% thereafter. Accordingly, we recorded a $2,060 million non-cash charge in

the fourth quarter of 2011 to reflect the impact of adopting a lower discount rate. While we recorded this charge as a component of benefit costs in 2011, it is, in our view, attributable to several prior years and should not solely be attributed to our 2011 operating results.

Our liability on account of future occupational diseases was $650 million, or 2.5% of our benefit liabilities at December 31, 2011. In 2011, we determined it would be appropriate to increase our provision by $50 million reflecting the increase in both the number of future occupational disease claims and their costs. During the past five years, occupational disease claims have increased from approximately 3.5% of the total number of claims to more than 6% of total claims, and now represent 10% of total claim payments compared to 8% five years ago.

The table below provides the development of the estimates related to claims incurred from 2006 to 2011.

	Year of injury						
($ millions)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Year of estimate							
2006	2,353		-	-	-	-	
2007	2,606	2,488	-	-	-	-	
2008	2,675	2,458	2,393	-	-	-	
2009	2,984	2,785	2,620	2,164	-	-	
2010	3,091	3,105	3,052	2,418	2,361	-	
2011	3,231	3,286	3,065	2,207	2,744	2,760	
Current estimate of claims costs	3,231	3,286	3,065	2,207	2,744	2,760	17,293
Cumulative change - $	878	798	672	43	383	-	2,774
Attributed to:							
Legislative changes	86	79	50	19	-	-	234
Actuarial assumption changes	792	719	622	24	383	-	2,540
Cumulative increase	*37.3%*	*32.1%*	*28.1%*	*2.0%*	*16.2%*	*0%*	*16.0%*

For the five years ended December 31, 2011, we determined it was necessary to increase the current estimate of claims costs by $2,774 million, of which $234 million was a result of legislative changes attributable to injury years for which we had previously set premium rates and therefore had no ability to retroactively recover the additional claim costs. The remaining $2,540 million of increases to our estimated claim costs reflects higher costs for long-term loss of earnings claims and injured workers living longer than expected.

As noted in the claim development table above, our need for additional actuarial reserves has decreased significantly since 2009 reflecting the impact of rapidly reducing the average duration, or time that an injured worker is unable to return to work. As actuarial reserves are, by nature, a lagging indicator of our benefit liabilities, we anticipate experiencing continued improvements in our estimation of our benefit liabilities. We continue to refine our actuarial assumptions and improve our forecasting capabilities. In 2011, recruited a Chief Statistician and formed an Actuarial Advisory Committee consisting of industry experts to assist us in refining our forecasting methodologies to better forecast our claim costs.

We anticipate taking additional steps to augment our actuarial capabilities in 2012 consistent with recommendations contained in Professor Arthurs' Funding Fairness report.

Administration and other expenses

Administration and other expenses were $324 million compared to $291 million, an increase of $33 million or 11.3%. Prior to reflecting a $51 million non-cash charge to reserve against the impairment of our case management software as a result of our business transformation initiatives, administration and

other expenses were $273 million, an $18 million or 6.2% reduction reflecting lower bad debt experience and our continued increased focus on reducing controllable expenditures.

A summary of changes in administration and other expenses for 2011 compared to 2010 is as follows:

		Change		
($ millions)	**2011**	**$**	**%**	**Commentary**
Salaries and short-term benefits	374	26	7.5	Replacement of external labour market re-entry case managers with in-house staff under our new work reintegration program, business transformation costs and increased salary costs pursuant to our collective bargaining agreement.
Long-term benefit plans	90	-	-	No meaningful change.
Impairment of intangible assets	51	51	-	$51 million non-cash provision for impairment of our case management software as a result of our business transformation initiatives.
Facilities	42	-	-	No meaningful change.
Bad debts	38	(18)	(32.1)	Improvement in the economy and management efforts on earlier account intervention.
Equipment and maintenance	32	(5)	(13.5)	Decreased equipment purchases and repairs.
Amortization	22	1	4.8	Increase in our asset base.
Other	16	-	-	No meaningful change.
Communications	10	(1)	(9.1)	Reduced advertisement expenses.
Travel and vehicle maintenance	6	1	20.0	Increased travel requirements from in-sourcing work reintegration program.
New systems development and integration	6	4	200.0	Costs to support Professor Arthurs' Funding Review and the implementation of Bill 119.
Supplies and services	5	-	-	No meaningful change.
	692	59	9.3	
Claim administration costs allocated to benefit costs	(368)	(26)	7.6	In-sourcing work reintegration program.
Total administration and other expenses	324	33	11.3	

Legislated obligations

Legislated obligations were $228 million, an increase of $1 million, or 0.4%, as follows:

($ millions)	2011	Change $	Change %	Commentary
Legislated obligations				
Occupational Health & Safety Act	95	2	2.2	Higher costs billed by the Ministry of Labour.
Mine rescue program	3	3	-	Reclassification of Mine Rescue program funding from Safe Workplace Associations to legislated obligations in 2011.
	98	5	5.4	
Workplace Safety & Insurance Appeals Tribunal	22	-	-	No meaningful change from previous year.
Worker Safety & Insurance Advisory Program				
Program administration	1	-	-	No meaningful change from previous year.
Office of the Workers' Adviser	11	-	-	No meaningful change from previous year.
Office of the Employers' Adviser	3	-	-	No meaningful change from previous year.
Worker Safety & Insurance Advisory Program	15	-	-	No meaningful change from previous year.
Total legislated obligations	135	5	3.8	
Commitments				
Safe Workplace Associations	66	(4)	(5.7)	Reclassification of Mine Rescue program noted above.
Workplace Health & Safety Centre	10	-	-	No meaningful change from previous year.
Health clinics	7	-	-	No meaningful change from previous year.
Grants	5	-	-	No meaningful change from previous year.
Institute for Work & Health	5	-	-	No meaningful change from previous year.
Total commitments	93	(4)	(4.1)	
Total legislated obligations and commitments	**228**	**1**	**0.4**	

6 Financial Condition

A discussion of the significant changes in our December 31, 2011 consolidated statement of financial position.

Changes in our consolidated statement of financial position are as follows:

		Changes		
($ millions)	**2011**	**$**	**%**	**Explanation of the changes**
Assets				
Cash and cash equivalents	983	(26)	(2.6)	See Section 8. Liquidity and Capital Resources.
Receivables	1,041	162	18.4	Higher experience rating premiums.
Investment receivables	115	42	57.5	Increase in unsettled investment transactions.
Investments	13,648	324	2.4	Increased asset base
Investments under securities lending program	523	(36)	(6.4)	Reduced market activities.
Investments in associates and jointly controlled entities	375	31	9.0	Increase in asset values.
Investment property	488	86	21.4	Increase in asset values.
Property and equipment	182	(4)	(2.2)	Reduction due to amortization.
Intangible assets	50	(51)	(50.5)	Impairment charge against case management software.
Liabilities				
Payables and accruals	1,083	(128)	(13.4)	Higher accrual for experience rating premiums.
Investment payables	23	1	4.2	Decreased amounts from unsettled investment transactions.
Long-term debt	137	6	4.2	Reduction of mortgages.
Loss of retirement income fund liability	1,254	(61)	(5.1)	Increase fund value contributions.
Employee benefit plans	812	(25)	(3.2)	$22 million due to actuarial changes in our employee benefit plans.
Benefit liabilities	26,390	(2,040)	(8.4)	See Section 5. Operating Results.
Unfunded liability	(14,199)	(1,761)	(14.2)	$2,040 million non-cash adjustment to our benefit liabilities, partially offset by improvements in operational performance.

7 Summary of Quarterly Results

A summary view of our quarterly financial performance.

Selected financial information for the eight consecutive quarters ended December 31, 2011 is as follows:

	2011				2010			
($ millions)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Premiums	987	998	993	898	867	958	886	796
Net investment income (loss)	614	(688)	99	271	572	854	(477)	258
Benefit payments	692	695	718	745	757	757	777	776
Claims administration costs	97	89	90	92	81	87	79	95
Change in actuarial valuation of benefit liabilities	2,400	(309)	(112)	61	447	(40)	435	258
Benefit costs	3,189	475	696	898	1,285	804	1,291	1,129
Loss of Retirement Income Fund contributions	17	18	18	17	18	18	19	18
Administration and other expenses	113	69	70	72	76	63	79	73
Legislated obligations and commitments	60	58	53	57	61	60	52	54
Comprehensive income (loss) attributable to WSIB stakeholders	(1,866)	(222)	240	87	(75)	758	(975)	(253)
Unfunded liability[1]	14,199	12,333	12,111	12,351	12,438	12,363	13,121	12,146
Funding ratio (%)[2]	52.2	55.0	56.1	55.4	54.7	54.4	51.4	54.1
Return on Investments (%)[3]	4.4	(4.7)	0.8	2.0	4.2	6.8	(3.5)	2.0

[1] Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders.

[2] Funding ratio is calculated as total assets, excluding non-controlling interest in pooled investments, divided by total liabilities.

[3] Return on investments is calculated as the change in the fair value of investments, net of capital contributions and withdrawals.

Our quarterly revenues and expenses are impacted by a number of trends and recurring factors such as seasonality as well as general economic and market conditions. Seasonal factors impact our premium revenues, reflecting higher insurable payrolls in the construction industry in the second and third quarters largely attributed to warmer temperatures. Our premium revenues are also impacted by insurable payrolls, which rise and fall with the employment levels in the industries we insure. Additionally, net investment income is influenced by worldwide capital markets and has been volatile on a quarterly basis for the last few years.

Notable items affecting our fourth quarter 2011 compared to the fourth quarter results of 2010 are as follows:

- Premiums were $987 million compared to $867 million, an increase of $120 million or 13.8%, reflecting the 2% premium increase in 2011 as well as stronger than anticipated insurable payroll growth in the automotive, construction and transportation industries;
- Net investment income was $614 million or 4.4% compared to $572 million or 4.2%, an increase of $42 million, reflecting a recovery in worldwide equity markets;
- Benefit payments were $692 million compared to $757 million, a reduction of $65 million or 8.6%, reflecting a steady reduction in the payments made for loss of earnings, the provision of health care services for injured workers and payments to external providers under our new work reintegration program;

- Claims administration costs were $97 million compared to $81 million, an increase of $16 million or 19.8%, reflecting the in-sourcing of our work reintegration program;
- Change in actuarial valuation of benefit liabilities was $2,400 million compared to $447 million, an increase of $1,953 million reflecting a $2,060 million increase to our benefit liabilities as a result of a reduction in our discount rate and $340 million related to longer-term claims durations;
- Loss of retirement income fund contributions were $17 million compared to $18 million, a reduction of $1 million or 5.6% reflecting the lower contribution required as a result of the decline in loss of earnings benefit payments;
- Administration and other expenses were $113 million compared to $76 million, an increase of $37 million or 48.7%, reflecting a $51 million provision for the impairment of our case management software as a result of changing business requirements; and
- Legislated obligations and commitments of $60 million compared to $61 million, a decrease of $1 million or 1.6%, reflecting the timing of payments.

8 Liquidity and Capital Resources

A discussion of cash flow, liquidity, credit facilities and other arrangements.

We commenced presenting our consolidated statements of cash flows using the indirect method effective July 1, 2011, as it is more consistent with industry practice and focuses on the difference between net income and net cash flow from operations. As such, we believe it provides a more useful link among the principal consolidated financial statements.

The purpose of liquidity management is to ensure there is sufficient cash to meet our financial commitments and obligations as they fall due. We believe we have the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill our cash requirements during the current financial period. We have three sources of funds: (i) premiums charged to employers; (ii) investment income; and (iii) cash and short-term investments.

Our funds are primarily used to satisfy benefit payments and operating expenses. As at December 31, 2011, we held $983 million of cash and cash equivalents of which $328 million was held for operating purposes, $153 million was held in our loss of retirement income fund on behalf of injured workers and $502 million was held for investing.

Cash provided (required) by operating activities

Cash provided by operating activities was $99 million, a $332 million improvement over the prior year. In 2011, we continued to build on positive recovery and return to work outcomes achieved in 2010 through our triple-focus on claims, work reintegration, and health care. We believe that cash provided by operating activities is a meaningful metric to measure our short-term operating performance as it reflects cash generated by or used to fund our day-to-day operating activities. In order to derive cash provided by operating activities we remove the impact, favourable or unfavourable, of non-cash revenues and expenses as well as the changes in non-cash balances related to our operations. In 2011, the most significant net change in non-cash balances related to operations was the $2,060 million increase to benefit liabilities to reflect the reduction in our discount rate.

	Year ended December 31	
($ millions)	**2011**	**2010**
Comprehensive loss	(1,708)	(386)
Net adjustments for non-cash revenues and expenses	(282)	(1,295)
Net change in non-cash balances related to operations	2,089	1,448
Cash provided (required) by operating activities	99	(233)

Cash provided (required) by investing activities

Cash required by investing activities for the year ended December 31, 2011 was $112 million compared to $776 million provided by investing activities in 2010 reflecting the net use of cash for the purchase of investments and property and equipment.

	Year ended December 31	
($ millions)	**2011**	**2010**
Cash provided (required) by investing activities	(112)	776

Cash provided (required) by financing activities

Cash required by financing activities for the year ended December 31, 2011 was $14 million compared to $39 million provided by financing activities in 2010 reflecting the net contributions to non-controlling interests and payments related to mortgages and leases.

	Year ended December 31	
($ millions)	**2011**	2010
Cash provided (required) by financing activities	(14)	39

Credit facilities

We maintain a $150 million unsecured line of credit with a commercial bank for general corporate purposes. As at December 31, 2011, we had utilized $0.4 million of this credit facility to support letters of credit in favour of the Ontario Ministry of Finance related to real estate transactions completed by WSIB Investment (Realty) Limited, a wholly owned subsidiary.

Other arrangements

We have entered into indemnification agreements with our current and former directors and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, and amounts paid in settlement and damages incurred as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which they are involved as a result of their services. Any such indemnification claims will be subject to any statutory or other legal limitation periods. The nature of the indemnification agreements prevents us from making a reasonable estimate of the maximum potential amount we could be required to pay to counterparties. Additionally, we have purchased directors' and officers' liability insurance. No amount has been recorded in the consolidated financial statements with respect to these indemnification agreements.

In the normal course of operations, we may provide indemnification agreements, other than those listed above, to counterparties that would require us to compensate them for costs incurred as a result of changes in laws and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary. The nature of the indemnification agreements prevents us from making a reasonable estimate of the maximum potential amount we could be required to pay to counterparties. No amount has been recorded in the consolidated financial statements with respect to these indemnification agreements.

Commitments

a) Operating leases

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Minimum lease payments
Not later than one year	13
Later than one year and not later than five years	34
Later than five years	12
	59

b) Investment commitments

The WSIB had commitments to fund real estate and infrastructure investments for $21 million and $67 million, respectively. In addition, the WSIB had $240 million of commitments for additional investments in associates and jointly controlled entities.

c) Commitments for legislated obligations

Known commitments related to legislated obligations at December 31, 2011 were $57 million related to the Government of Ontario's 2012 fiscal year ending March 31, 2012 and $237 million related to the Government of Ontario's 2013 fiscal year April 1, 2012 through March 31, 2013.

d) Other commitments

The WSIB has commitments over the next five years under non-cancellable contracts for purchases of goods and services with minimum future payments of approximately $98 million.

Contingent off-balance-sheet arrangements

We do not have any material unrecognized obligations under forward foreign exchange contracts, guarantee contracts, retained or contingent interests in transferred assets, outstanding derivative instruments or non-consolidated variable interests.

9 Critical Accounting Estimates and Judgments

A description of our accounting estimates that are critical to determining our financial results and changes to accounting policies.

The preparation of the consolidated financial statements requires the WSIB to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the consolidated financial statements, and actual results could differ from estimates. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

In addition, the WSIB has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can have an effect on the amounts recognized in the consolidated financial statements.

Benefit liabilities

Benefit liabilities represent the actuarially determined present value of future payments for reported and unreported claims related to workers of Schedule 1 employers incurred prior to the reporting date. The measurement of the benefit liabilities requires the actuary to make estimates and assumptions for a number of factors, including those for claim duration, mortality rates, wage escalation, expected return on

investments, general inflation and discount rates. Changes in these estimates and assumptions could have an impact on the measurement of the benefit liabilities and benefit costs.

Employee benefit plans

The costs and liabilities associated with defined benefit pension plans and other long-term employee benefit plans are determined in accordance with actuarial valuations. The actuarial valuations rely on estimates and assumptions including those for wage escalation, expected return on plan assets, health care and dental cost inflation, retirement ages, life expectancies and discount rates. Changes in these estimates could have an impact on the employee benefit plans liability and employee benefit costs.

Fair value measurement of financial instruments

Where possible, the fair value of publicly traded financial instruments is based on quoted market prices. The fair value for a substantial majority of financial instruments is based on quoted market prices or valuation models that use observable market inputs such as interest rate yield curves. Valuation models incorporate prevailing market rates and may require estimates for economic risks and projected cash flows.

Fair value measurement of investment properties

The WSIB's investment properties are owned indirectly through subsidiaries or jointly controlled entities. Investment properties are remeasured to fair value at each reporting date, estimated based on annual valuations performed by third-party appraisers. On a quarterly basis, the fair value of investment properties is updated based on internal valuation models incorporating available market evidence. When estimating the fair value of investment properties, the third-party appraisers and internal valuators make estimates and assumptions that have a significant effect on the reported value of investment properties. Estimates and assumptions used in determining the fair value of the investment properties include discount and terminal capitalization rates, inflation rates, vacancy rates, and future net cash flows of the property.

Transition to IFRS

The transition to IFRS required management to make judgments in the application of IFRS 1, First-time Adoption of IFRS ("IFRS 1"). These judgments have an effect on the measurement of assets and liabilities in the opening IFRS consolidated statement of financial position at January 1, 2010. Note 24 to the consolidated financial statements includes an explanation of the transition to IFRS, including the application of IFRS 1, and the impact on the WSIB's consolidated financial statements.

10 Recent Accounting Pronouncements

A discussion of IFRS developments that have, will, or might affect the WSIB.

The following new or amended accounting standards have been issued by the International Accounting Standards Board ("IASB"). These new or amended standards are not yet effective and the WSIB has not completed its assessment of their impact on its consolidated financial statements.

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009, and subsequently revised in October 2010 as part of the IASB's ongoing project to replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or at fair value, replacing the multiple classifications in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also includes guidance on the classification and measurement of financial liabilities, which largely carried forward the existing requirements in IAS 39.

IFRS 10, Consolidation ("IFRS 10")

IFRS 10 was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IAS 27, Consolidated and Separate Financial Statements ("IAS 27"), consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 will replace SIC 12, Consolidation - Special Purpose Entities, and parts of IAS 27.

IFRS 11, Joint Arrangements ("IFRS 11")

IFRS 11 was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 11 requires interests in joint arrangements to be classified as a joint venture or joint operation. A joint arrangement is an arrangement in which two or more parties have joint control. Joint ventures will be accounted for using the equity method of accounting whereas a party with joint control of a joint operation will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in certain joint ventures. IFRS 11 will replace IAS 31, Interests in Joint Ventures, and SIC 13, Jointly Controlled Entities - Non-monetary Contributions by Venturers.

In conjunction with the issue of IAS 11, IAS 28, Investments in Associates, was amended to include joint ventures within its scope and to address the guidance included in IFRS 10 and IFRS 12, Disclosure of Interests in Other Entities. IAS 28 has been retitled Investments in Associates and Joint Ventures.

IFRS 12, Disclosures of Interest in Other Entities ("IFRS 12")

IFRS 12 was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The IFRS standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard also requires enhanced disclosures of how control was determined and any restrictions that might exist on consolidated assets and liabilities within the consolidated financial statements.

IFRS 13, Fair Value Measurement ("IFRS 13")

IFRS 13 was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 13 defines fair value and sets out in a single IFRS framework for measuring fair value that is applied in most circumstances where IFRS requires or permits measurements or disclosures of fair value. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. IFRS 13 also establishes disclosures about fair value measurement.

IAS 19, Employee Benefits ("IAS 19")

Amendments to IAS 19 were issued in June 2011. The amended standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

The amendments to IAS 19 include eliminating the corridor approach to recognizing actuarial gains and losses. Entities will also need to segregate changes in the defined benefit obligation and in the fair value of plan assets into three components: service costs, net interest on the net defined benefit liabilities (assets) and remeasurements of the net defined benefit liabilities (assets). The amendments also enhance disclosure about the risks arising from defined benefit plans.

IAS 1, Financial Statement Presentation ("IAS 1")

Amendments to IAS 1 were issued in June 2011. The amended standard is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

The amendments to IAS 1 will require entities to group items presented in other comprehensive income based on an assessment of whether such items may, or may not, be reclassified to earnings at a subsequent date.

IAS 32, Financial Instruments Presentation ("IAS 32") and IFRS 7, Financial Instruments Disclosures ("IFRS 7")

Amendments to IAS 32 and IFRS 7 were issued in December 2011. The amended IFRS 7 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The amended IAS 32 is effective for annual periods beginning on or after January 1, 2014 with earlier application permitted.

The amendments to IAS 32 clarify the existing requirements for offsetting financial instruments. The amendments to IFRS 7 include new disclosure requirements intended to facilitate comparisons to financial statements prepared under US GAAP.

Exposure Drafts

a) Insurance contracts

In July 2010, the IASB issued an exposure draft containing proposals for significant changes to the existing recognition, measurement, presentation, and disclosure requirements for insurance contracts. The IASB continues to work on these proposals with the objective of finalizing a new standard to replace IFRS 4 Insurance Contracts. This is an important standard that may have a significant impact on the WSIB's consolidated financial statements, however, the new standard is not finalized and will not have an impact until it is issued and effective. The date the new standard will be issued and the date the new standard will be effective are uncertain.

b) Other

The IASB regularly issues exposure drafts with proposals for new standards or amendments to existing standards. The WSIB's consolidated financial statements do not include disclosure of all exposure drafts issued by the IASB.

11 Outlook

The outlook for our business.

While we made significant progress in 2011 transforming the WSIB, as evidenced by a $332 million improvement in cash provided by operating activities over the previous year, significant work remains. We continue to face funding challenges as our liabilities, primarily the projected cost of future payments for compensable claims, have grown faster than our assets, resulting in recurring losses since 2001 and our need, prior to 2011, to use $6 billion of investments to fund our operations since 1997.

Given the size of our unfunded liability today and the fundamental challenge of funding both existing and new types of compensable claims, along with lower anticipated investment returns over the next several years, responsible but difficult decisions must be made. Stakeholders appreciate the need to return the province's compensation system to sustainability while at the same time continuing to see that injured workers are supported in their effort to return to work expeditiously and with dignity. Management is also acutely aware of these needs and has developed a comprehensive strategy that will see the WSIB continue to increase its operational effectiveness concurrent with reducing its unfunded liability.

Over the next three years, we anticipate being able to realize significant enhancements and changes to the way we focus our resources, assess and meet the needs of stakeholders and deliver services. To provide stakeholders greater insight into our operations, we have expanded our Outlook contained in this MD&A. Additionally, once our funding policy, establishing how we anticipate funding our operations, is

developed and implemented, we anticipate posting it on our website to provide even greater transparency.

Outlined below is our Outlook, as well as the initiatives being undertaken to best align our resources to achieve financial sustainability.

Economics and demographics

The province's economy continues to experience modest growth amidst a great deal of economic uncertainty. Unemployment rates remain high, challenging return to work efforts, which have the potential to result in longer and more costly claims. The province's workforce continues to have a greater percentage of older workers than ever before and continues to shift toward non-traditional jobs such as knowledge work generally supplied by workplaces not compulsorily covered by the WSIA. As well, the trend to more part-time and temporary work may result in higher claims volumes and costs due to challenges with return to work programs. Accordingly, we have only assumed modest employment and wage growth in reflecting a conservative approach to forecasting in light of the uncertainty of today's economy.

Premiums

The 2% increase in premiums announced in 2011 is being applied to all rate groups in 2012 and is anticipated to increase premium revenues by approximately 2.6% to $3.9 billion in 2012.

We also anticipate commencing a series of consultations with employer groups in 2012 to seek input into our proposed premium rates for 2013 and beyond. To provide both employers and the WSIB with a greater degree of certainty and predictability, we anticipate seeking approval for an increase in premium revenues for a three-year period commencing January 1, 2013.

Additionally, Bill 119, fully coming into force on January 1, 2013, will mandate that approximately 90,000 independent operators in the construction industry will be required to register and pay premiums to us. We anticipate this legislation will generate an incremental 2% or $70 million of premium revenues in 2013. This additional premium will, however, be offset by benefit costs to these injured workers and hence will have little impact on our unfunded liability.

Net investment income

We anticipate net investment income will improve moderately from 2.3% in 2011 and our five-year average of 1.2%. We expect interest rates will remain near historical lows as we continue to experience worldwide economic uncertainty, particularly within the European Union. We will continue to implement our Strategic Investment Plan so as to not overly expose us to a higher level of volatility and corresponding investment risk. We remain cautious in our expectations and will continue to invest in a prudent manner without placing undue reliance on the need for excess returns.

Benefit costs

Lower lost-time injuries, faster and more efficient claims management and better management of health care costs, have lead to improved outcomes for injured workers and a reduction in benefit payments. We anticipate benefit payments to injured workers will continue to trend down in 2012 representing the third consecutive year of reductions after ten consecutive years of rising costs. We also anticipate claims administration costs will continue to decrease as a result of several management actions to streamline our administration and business processes. Despite these actions, it is quite possible new types of compensable claims in areas such as occupational disease will add to our benefit costs.

We have assumed inflation will remain at the Bank of Canada's target of 2.5% per annum. To the extent inflation exceeds this target level, our benefit costs would increase. We estimate that for every 1% increase in inflation above the Bank of Canada's target rate of 2.5%, we would incur an additional one-time increase in our benefit liability of $1,674 million. We have also not assumed any further change in our discount rate. A 1% decrease in our discount rate, would increase our benefit liabilities by $2,107 million. Benefit costs are also sensitive to changes in other assumptions. For example, a 1% increase in health care costs, currently at 6.5% per annum, would increase benefit costs by $277 million.

Administration and other expenses

We anticipate administration and other expenses will remain relatively stable in 2012 after reflecting more than $27 million of one-time costs anticipated to be incurred in 2012 to support our business transformation efforts. As a result of actions taken in early 2012, we anticipate our full-time staff level will decrease by 326 full-time positions or 7.4% of our workforce representing approximately $25 million of annualized cost savings. These cost savings are being achieved without adversely impacting our operations and our ability to provide essential services to injured workers. We anticipate being able to realize additional cost savings notwithstanding modest increases in inflation.

In 2011, our pension expense was $45.2 million. We anticipate our pension expense will increase significantly in future years primarily due to lower interest rates, which form the basis of how we measure our pension plan obligation. At this time, we believe our annual cash pension plan contributions may increase from $45 million in 2011 to more than $150 million annually. We are studying this matter now so as to best manage this cost item in the coming years.

Legislated obligations

On June 1, 2011, Bill 160 received Royal Assent specifying the transfer of our prevention mandate to the Ministry of Labour effective April 1, 2012. Accordingly, we anticipate our legislated obligations will increase by approximately $75 million to reflect costs we anticipated will be billed to us by the Ministry of Labour offset by an equal reduction in other commitments.

Unfunded liability

In 2011, our unfunded liability, prior to reflecting a $2,060 million non-cash charge to reflect the reduction of our discount rate and a $51 million non-cash charge to reflect the impairment of internally developed software to support our case management system, decreased by $350 million, demonstrating our continued improved operating performance.

We anticipate, based on current funding, benefit levels and measurement system, our unfunded liability has peaked and will continue to decrease in 2012 and beyond, reflecting continued improved operating performance.

12 Risk Factors

A discussion of the more significant risk factors affecting our business.

Introduction

We face a number of different risks and uncertainties that expose us to possible losses. Set forth below are those risks and uncertainties that we currently believe to be material. They are not, however, the only risks and uncertainties we face. If any of these risks (or any other risks and uncertainties that we have not yet identified, or that we currently consider to be not material) actually occur or become material, our business prospects, financial condition, results of operations and cash flows could be adversely affected. While we employ a broad and diversified set of risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every outcome or the specifics and timing of such outcomes.

Our risks can be broadly categorized as either operational or investment related in nature, each of which is summarized below, along with our mitigation strategies.

Operational risks

Operational risks include those risks that can cause an adverse impact on our operating results.

Strategy

To successfully implement our Strategic Plan, we intend to more effectively define how we deliver services to our stakeholders. While we have been successful in implementing the near term milestones of our Strategic Plan, we cannot be sure we will continue to be successful in implementing our strategies.

We may experience difficulties due to adverse economic conditions, changes in regulatory requirements, delays in implementing new technologies or incurring unforeseen costs. To help mitigate these risks, we rely extensively on a comprehensive planning capability, analytical tools, and technology to improve our capacity to deliver our services.

Benefit liabilities

Benefit liabilities are estimated to cover the estimated ultimate unpaid liability for benefits with respect to reported and unreported claims incurred as of the end of each accounting period. Our success is dependent on our ability to accurately assess the risks associated with the benefit liability being compensated. Failure to accurately assess the risks assumed may lead to the setting of premium rates that are inadequate to cover costs and could adversely affect our comprehensive income and financial condition. Benefit liabilities do not represent an exact calculation of liability, but instead represent estimates at a given point in time involving actuarial and statistical projections of our expectations of the ultimate settlement and administration costs of claims incurred. Establishing an appropriate level of benefit liabilities is an inherently uncertain process.

Benefit liabilities are influenced by factors such as the discount rate used to value future claims, expected levels of inflation, availability, the utilization and cost of health care services, injury severity and duration, availability of return to work programs and re-employment opportunities at pre-injury employers, wage growth, new medical findings that affect the recognition of occupational diseases, legislated changes to benefit rates or modification of the recognition of workplace injuries, which are sometimes applied retroactively, and precedents established through various claims appeals processes. We mitigate these risks by utilizing both proprietary and commercially available actuarial models, assessing historical loss development patterns in addition to augmenting our resources with the recruitment of a Chief Statistician and the formation of an Actuarial Advisory Board consisting of individuals with expertise in the area of actuarial science and specifically as it relates to worker compensation matters.

Premium revenues

We set premiums on an annual basis to cover a significant portion of our anticipated operating costs. Factors, many of which are beyond our control, can change between the time of premium setting and the fiscal year to which the premium relates, causing premiums to be insufficient to cover annual operating costs and leading to an increase in both the size of the unfunded liability and pressure to increase future premium rates. We mitigate this risk by diligently assessing our anticipated operating costs factoring in both known variables such as salaries and benefits as well as anticipated variables such as new claims costs and the cost of our business transformation efforts.

Economic conditions and workforce changes

Our business may be materially adversely affected from time to time by general economic conditions. We are particularly susceptible to both the level and composition of employment in the province. Employers covered under the WSIA pay premiums based on one of 154 premium rates established by us multiplied by the employer's insurable payroll. Accordingly, to the extent the province's economy incurs low or modest growth, our premiums will be adversely affected. Additionally, the province's workforce continues to have a greater percentage of older workers than ever before and continues to shift toward non-traditional jobs such as knowledge work generally supplied by workplaces not compulsorily covered by the WSIA. As well, the trend to more part-time and temporary work may result in higher claims volumes and costs due to challenges with return to work programs. We mitigate these risks by conducting economic forecasting to better project the level of future insurable payrolls and the employment levels within the underlying rate groups.

Business interruption

We may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophic events, an example of which is a global flu pandemic (e.g., H1N1). Our operations may be subject to losses resulting from such disruptions. Losses can relate to financial assets and also to key personnel. If our business continuity plans cannot be put into action or do not take such events into account, losses may increase further. In order to maintain the integrity and continuity of our operations in the event of a crisis, we have developed several communication protocols. For example, emergency action plans,

business continuity plans, business recovery plans, major health crisis plans, building evacuation plans and crisis communication plans have all been defined and are tested on an ongoing basis.

Dependency on key employees

Our success is dependent on our ability to retain the services of our existing key employees and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key employees, or the inability to identify, hire and retain other highly qualified personnel in the future, could adversely affect the efficiency of our business operations. We have developed a focused recruiting strategy to aggressively market careers and opportunities. The strategy includes an updated website, focused external recruiting, campaigns, rebranding and targeted advertising. Talent identification and development programs have been implemented to retain and grow existing talent and ingrain succession planning.

Technology

Third parties provide certain key components of our business infrastructure such as voice and data communications and network access. Given the high volume of transactions processed daily, we are reliant on such third party provided services to successfully deliver our products and services. Despite our contingency plans and those of the third party service providers, failure of these systems could interrupt our operations and impact our ability to rapidly evaluate and commit to new business opportunities. In addition, a security breach of our information systems could damage our reputation or result in liability. We retain confidential information regarding our business dealings in our computer systems, including, in some cases, confidential personal information regarding benefit claimants. Therefore, it is critical that our facilities and infrastructure remain secure.

Reputation

From time to time, various stakeholder groups or the media may focus attention on our services, thereby subjecting us to periodic negative publicity. We also may be negatively impacted in relation to our information systems and technology, or if we engage in practices resulting in increased public attention to our business. To mitigate these risks, our senior officers oversee our disclosure practices and procedures, and under the direction of our Audit and Finance Committee approve the release of material financial information. Additionally, we continually review our enterprise risk management activities to identify situations that can adversely affect our reputation.

Regulatory, political and other influences

Our business is subject to changing political and regulatory influences. Any programs to reform or amend the WSIA could adversely affect us. We mitigate this risk by engaging with the Minister as well as our stakeholder community to ensure, to the greatest extent possible, that any changes to existing programs are developed and implemented in a manner that best aligns with our Strategic Plan and organizational capabilities.

Investment risks

Our primary investment risk is that investment returns, taken together with a reasonable and sustainable level of contributions, are insufficient to meet the long-term obligations for which the fund is established. This risk would be manifest in the failure to achieve a return of at least the actuarial discount rate of 6% over a long-term horizon of rolling 15-year periods. Our overarching risk mitigation tool for investment risk is the development and review of our Statement of Investment Policies and Procedures, which is presented annually to the Board of Directors for their approval.

The significant risks related to investments include liquidity risk, credit risk and market risk and are discussed below:

Liquidity risk

Liquidity risk is the risk we will encounter difficulty in meeting obligations associated with financial liabilities. We mitigate this risk by investing the majority of our assets in readily marketable instruments, publicly traded equity, and fixed income securities and invest the remainder of our investments in high quality real estate and infrastructure investments that provide steady cash flows. To manage our cash

flow requirements, we maintain a portion of our investments in liquid securities. Additionally, our liquidity management is governed by establishing a prudent policy that identifies oversight responsibilities as well as by setting limits and implementing effective techniques to monitor, measure and control exposure to liquidity risk. A portion of our investments is maintained in short-term (less than one year) highly liquid money market securities, which are used to manage our operational requirements. We also have a $150 million unsecured committed credit facility, which we can utilize to manage our liquidity needs.

Credit risk

Credit risk is the risk one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. We are exposed to several types of credit risk, as follows:

- Our fixed income investments consist primarily of high quality, investment grade debt instruments. We manage our credit risk through a due diligence process by selecting multiple highly rated counterparties and by setting counterparty exposure limits.
- We manage counterparty risk relating to our security lending program by establishing a pre-approved, qualified borrower list and through exposure limits. In addition, we mitigate credit risk by requiring daily marking-to-market to maintain full collateralization with an additional margin for safety.
- We pay insurance benefits for Schedule 2 workers and are then reimbursed by their employers for the related costs. We mitigate the risk of credit loss by holding collateral in the form of letters of credit issued by highly rated Canadian financial institutions.
- We enter into annuity agreements with various Canadian life insurance companies, which have credit ratings of at least A or better, to provide for fixed and recurring payments to claimants. We are exposed to the credit risk that life insurers may fail to fulfill their obligations.

Market risk

There are four types of market risk we are exposed to including currency risk, interest rate risk, price risk and concentration risk as follows:

- Currency risk is the risk of loss due to adverse movements in foreign currency rates as compared with the Canadian dollar. We use foreign exchange contracts, for economic hedging strategies to manage investment risk, to improve liquidity, or to manage exposure to asset classes or strategies. Foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract inception.
- Interest rate risk is the potential for financial loss arising from changes in interest rates. We review interest rate risk through periodic asset liability analyses, which assess the impact of different interest rate scenarios on our asset and liabilities over a period of time. Interest rate risk is mitigated primarily through asset allocation, which aims to cover interest rate risk over the long term.
- Price risk is the risk the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. We mitigate price risk by diversifying our investment portfolio in accordance with our investment policies.
- Concentration risk arises from the exposure of investments in one particular issuer, a group of issuers, a geographic region, or a sector. These groups share similar characteristics such as type of industry, regulatory compliance, and, economic and political conditions, which may impact the issuers' ability to meet contractual commitments. We mitigate these risks through limits on exposure to regions and sectors and limits on underlying securities.

13 Related Party Transactions

A discussion of related party transactions and their relationship to our business.

We are a trust agency of the Government of Ontario, responsible for administering the WSIA. Pursuant to the WSIA, we are required to reimburse the Government of Ontario for all administrative costs of the

OHSA. We are also required to fund various other organizations, including WSIAT and the offices of both the Worker and Employer Adviser. These reimbursements and associated amounts charged to employers are determined and approved by the Minister of Labour. In 2011, we provided $228 million (2010 - $227 million) for legislated obligations and commitments.

In addition to legislated obligations and workplace health and safety expenses, our consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various controlled ministries, agencies, and Crown corporations of the Government of Ontario.

Included in investments are marketable fixed income securities issued by the province and related corporations valued at $975 million (2010 - $944 million).

14 Forward-looking Statements

Caution regarding forward-looking statements.

This MD&A constitutes "forward-looking statements," within the meaning of applicable Canadian securities laws. Forward-looking statements can be identified by the use of words, such as "anticipates," or "believes," "budget," "estimates," "expects," or "is expected," "forecasts," "intends," "plans," "scheduled," or variations of such words and phrases or state that certain actions, events or results "could," "may," "might," "will," "would," or be taken, occur or be achieved. These forward-looking statements relate to, among other things, our future results, levels of activity, performance, goals or achievements or other future events. These forward-looking statements are based on current expectations and various assumptions and analyses made by us in light of our experience and our perceptions of historical trends, current conditions and expected future developments and other factors we believe are appropriate in the circumstances. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in our forward-looking statements.

These factors may cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on our business. For example, they do not include the effect of asset impairments or other charges announced or occurring after the forward-looking statements are made. The financial impact of such transactions and non-recurring and other special items can be complex and necessarily depends on the facts particular to each of them.

We believe the expectations represented by our forward-looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. The purpose of the forward-looking statements is to provide the reader with a description of management's expectations regarding our anticipated financial performance and may not be appropriate for other purposes. Furthermore, unless otherwise stated, the forward-looking statements contained in this report are made as of the date of this report and we do not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise unless required by applicable legislation or regulation. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

RESPONSIBILITY FOR FINANCIAL REPORTING

Role of Management

The accompanying consolidated financial statements are the responsibility of the management of the Workplace Safety and Insurance Board ("WSIB") and have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements include amounts based on management's best estimates and judgments.

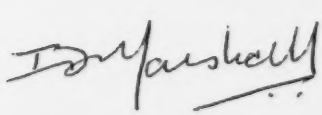
Management is responsible for the preparation and fair presentation of these consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors has established an Audit and Finance Committee to ensure management fulfills these responsibilities. The Audit and Finance Committee meets periodically with management, internal auditors, and external auditors to ensure that their responsibilities are properly discharged with respect to the application of critical accounting policies, financial statement presentation, disclosures, and recommendations on internal control.

Role of the Chief Actuary

With respect to the preparation of the consolidated financial statements, the chief actuary prepares a valuation, including the selection of appropriate assumptions, of the WSIB's benefit liabilities at the consolidated statement of financial position date to determine the valuation of the benefit liabilities and provides an opinion to the Board of Directors regarding the appropriateness of the benefit liabilities recorded by management of the WSIB at the date of the consolidated statement of financial position. The work to form that opinion includes an examination of the sufficiency and reliability of data and a review of the valuation processes. The chief actuary is responsible for assessing whether the assumptions and methods used for the valuation of the benefit liabilities are in accordance with accepted actuarial practice, applicable legislation, and associated regulations and directives. In performing the valuation of these liabilities, which are by their very nature inherently variable, the chief actuary makes assumptions as to future interest and mortality rates, expenses, related trends, and other contingencies, taking into consideration the circumstances of the WSIB. It is certain that the benefit liabilities will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for future claim categories not sufficiently recognized in the claims experience and inventories. The chief actuary's report outlines the scope of the valuation and his opinion.

Role of the External Auditors

The external auditors, KPMG LLP, working under the direction of the Auditor General of Ontario, have performed an independent and objective audit of the consolidated financial statements of the WSIB in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors make use of the work of the chief actuary and his report on the benefit liabilities of the WSIB. The external auditors have full and unrestricted access to the Board of Directors and the Audit and Finance Committee to discuss audit, financial reporting, and related findings. The independent auditors' report outlines the scope of their audit and their opinion on the consolidated financial statements of the WSIB.



I. David Marshall
President and Chief Executive Officer
April 17, 2012
Toronto, Ontario

Lawrence E. Davis
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Workplace Safety and Insurance Board,

The Minister of Labour and the Auditor General of Ontario

Pursuant to the *Workplace Safety and Insurance Act*, 1997 (Ontario), which provides that the accounts of the Workplace Safety and Insurance Board ("WSIB") shall be audited by the Auditor General of Ontario or under his direction by an auditor appointed by the Lieutenant Governor in Council for that purpose, we have audited the accompanying consolidated financial statements of the WSIB, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010, the consolidated statements of comprehensive income (loss), changes in deficiency of assets, and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the WSIB as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
April 17, 2012
Toronto, Canada

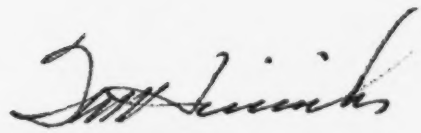
ACTUARIAL OPINION

I have valued the benefit liabilities of the Workplace Safety and Insurance Board for its consolidated statement of financial position as of December 31, 2011, and its change in the consolidated statement of comprehensive income (loss) for the year then ended.

In my opinion, the data on which the valuation is based are sufficient and reliable, and the assumptions and methods employed are appropriate for the purpose of the valuation.

In my opinion, the amount of the benefit liabilities makes appropriate provision for all personal injury compensation obligations and the consolidated financial statements fairly present the results of the valuation.

These opinions have been given in accordance with accepted actuarial practice in Canada.



W. Robert Hinrichs
Fellow, Canadian Institute of Actuaries
April 17, 2012

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Financial Position

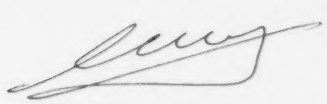
(millions of Canadian dollars)

	Note	December 31 2011	December 31 2010	January 1 2010
Assets				
Cash and cash equivalents	8	983	1,009	427
Receivables		1,041	879	882
Investment receivables		115	73	76
Investments	9	13,648	13,324	12,273
Investments under securities lending program	9	523	559	1,243
Investments in associates and jointly controlled entities	10	375	344	272
Investment property	11	488	402	264
Property and equipment	13	182	186	187
Intangible assets	14	50	101	96
Total assets		**17,405**	**16,877**	**15,720**
Liabilities				
Payables and accruals		1,083	955	755
Investment payables		23	24	20
Long-term debt	15	137	143	113
Loss of Retirement Income Fund liability	16	1,254	1,193	1,054
Employee benefit plans	17	812	787	788
Benefit liabilities	18	26,390	24,350	23,250
Total liabilities		**29,699**	**27,452**	**25,980**
Deficiency of assets				
Unfunded liability attributable to WSIB stakeholders		(14,199)	(12,438)	(11,893)
Non-controlling interest		1,905	1,863	1,633
Total deficiency of assets		**(12,294)**	**(10,575)**	**(10,260)**
Total liabilities and deficiency of assets		**17,405**	**16,877**	**15,720**

Commitments and contingent liabilities (note 19)

Subsequent events (note 23)

Approved by the Board of Directors on April 17, 2012



Hon. Steven W. Mahoney
Chair

Marlene McGrath
Audit and Finance Committee (Chair)

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31

(millions of Canadian dollars)

	Note	2011	2010
Revenues			
Premiums	6	3,876	3,507
Net investment income			
Investment income	9	352	1,231
Investment expenses	9	(90)	(84)
Income from associates and jointly controlled entities	10	34	60
		296	1,207
		4,172	**4,714**
Expenses			
Benefit costs			
Benefit payments	18	2,850	3,067
Claim administration costs	7	368	342
Change in actuarial valuation of benefit liabilities	18	2,040	1,100
		5,258	4,509
Loss of Retirement Income Fund contributions	16	70	73
Administration and other expenses	7	324	291
Legislated obligations and commitments	19	228	227
		5,880	**5,100**
Comprehensive loss for the year		**(1,708)**	**(386)**
Comprehensive income (loss) attributable to:			
WSIB stakeholders		(1,761)	(545)
Non-controlling interest		53	159
		(1,708)	**(386)**

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Changes in Deficiency of Assets

For the years ended December 31

(millions of Canadian dollars)

Unfunded liability attributable to WSIB stakeholders	
Balance at January 1, 2010	(11,893)
Comprehensive loss attributable to WSIB stakeholders	(545)
Balance at December 31, 2010	(12,438)
Comprehensive loss attributable to WSIB stakeholders	(1,761)
Balance at December 31, 2011	**(14,199)**
Non-controlling interest	
Balance at January 1, 2010	1,633
Comprehensive income attributable to non-controlling interest	159
Change in ownership share in investments	71
Balance at December 31, 2010	1,863
Comprehensive income attributable to non-controlling interest	53
Change in ownership share in investments	(11)
Balance at December 31, 2011	**1,905**
Total deficiency of assets December 31, 2011	**(12,294)**

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Cash Flows

For the years ended December 31

(millions of Canadian dollars)

	2011	2010
Operating activities:		
Comprehensive loss	(1,708)	(386)
Adjustments for items not involving cash:		
Amortization of net discounts on investments	12	19
Amortization of property, equipment and intangible assets	25	25
Changes in fair value of investments	166	(835)
Changes in fair value of investment property	(48)	(19)
Dividend income from equity securities	(224)	(208)
Impairment of intangible assets	51	-
Income from associates and jointly controlled entities	(34)	(60)
Interest income	(244)	(230)
Interest expense	14	13
	(1,990)	(1,681)
Change in non-cash balances related to operations:		
Receivables	(162)	5
Payables and accruals	125	205
Loss of Retirement Income Fund liability	61	139
Employee benefit plans	25	(1)
Benefit liabilities	2,040	1,100
	2,089	1,448
Net cash provided (required) by operating activities	**99**	**(233)**
Investing activities:		
Dividends received from equity securities	215	208
Dividends received from associates and jointly controlled entities	8	10
Interest received	243	233
Additions of property and equipment	(9)	(3)
Additions of intangible assets	(12)	(17)
Purchase of investments	(19,293)	(17,472)
Sale of investments	18,793	17,926
Additions of investment property	(7)	(1)
Acquisition of associates and jointly controlled entities	(11)	(23)
Disposition of associates and jointly controlled entities	6	-
Acquisition of subsidiaries	(75)	(85)
Disposition of subsidiaries	30	-
Net cash provided (required) by investing activities	**(112)**	**776**
Financing activities:		
Disposition of non-controlling interest	69	172
Distributions paid by subsidiaries to non-controlling interest	(63)	(115)
Repayment on mortgages and finance leases	(6)	(5)
Interest paid on mortgages and finance leases	(14)	(13)
Net cash provided (required) by financing activities	**(14)**	**39**
Increase (decrease) in cash and cash equivalents	**(27)**	**582**
Cash and cash equivalents, beginning of year	1,009	427
Effect of exchange rate fluctuations on cash held	1	-
Cash and cash equivalents, end of year	**983**	**1,009**

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Notes to Consolidated Financial Statements

December 31, 2011

Table of Contents

	Page	Description
General and Accounting Policies		
1. Nature of operations	53	Summary description of the WSIB's operations
2. Statement of compliance	53	Statement of compliance with International Financial Reporting Standards ("IFRS")
3. Summary of significant accounting policies	53	Review of accounting policies and the methods used in their application to the WSIB's consolidated financial statements
4. Critical accounting estimates and judgments	59	Review of the critical estimates and judgments made by the WSIB in the preparation of the consolidated financial statements
5. Future changes in accounting standards	60	Review of developments in accounting standards that may affect the WSIB's future consolidated financial statements
Notes Supporting the Consolidated Results of Operations and Financial Position		
6. Revenues	62	Schedule of premiums and investment income
7. Administration and other expenses	63	Schedule of administration and other expenses by type
8. Cash and cash equivalents	63	Schedule of items that comprise cash and cash equivalents
9. Investments and net investment income	64	Schedule and review of investments and investment income
10. Investments in associates and jointly controlled entities	68	Review of investments in associates and jointly controlled entities and the related financial results
11. Investment property	70	Review of investment property, key assumptions and valuations
12. Jointly controlled assets	72	Review of investments in the form of jointly controlled assets
13. Property and equipment	73	Schedule of items comprising property and equipment
14. Intangible assets	74	Schedule of items comprising intangible assets
15. Long-term debt	75	Schedule of items comprising long-term debt
16. Loss of Retirement Income Fund liability	76	Schedule and review of the Loss of Retirement Income Fund liability
17. Employee benefit plans	77	Schedules and review of liability and expenses associated with the employee benefit plans

	Page	Description
Other Explanatory Notes		
18. Benefit liabilities and benefit costs	80	Schedule and review of benefit liabilities and benefit cost, including actuarial assumptions and sensitivity, and changes in the actuarial valuation of benefit liabilities
19. Commitments and contingent liabilities	86	Review of the WSIB's financial commitments and contingent liabilities
20. Financial instruments fair value measurement and disclosures	88	Review of the WSIB's financial instruments and fair value disclosures
21. Financial risk management	91	Review of the WSIB's financial risks and how the WSIB manages each of the financial risks
22. Related party transactions	96	Schedules and review of related parties and related disclosures
23. Subsequent events	97	Discussion of material events that occurred after the reporting date
24. Transition to IFRS	98	Explanation of the transition to IFRS and the effect on the WSIB's consolidated financial statements

1. Nature of operations

The Workplace Safety and Insurance Board (the "WSIB") is a statutory corporation created by an Act of the Ontario Legislature in 1914 and domiciled in the Province of Ontario, Canada (the "Province"). As a trust agency of the Government of Ontario, the WSIB is responsible for administering the *Workplace Safety and Insurance Act (Ontario)*, 1997 (the "WSIA"), which establishes a no-fault insurance scheme that provides benefits to workers who experience workplace injuries or illnesses.

The WSIB promotes workplace health and safety in the Province and provides a workplace compensation system for Ontario based employers and workers. The WSIB is funded entirely by employer premiums and does not receive any government funding or assistance. Revenues are also earned from a diversified investment portfolio held to meet future obligations on existing claims.

The WSIB's primary place of business is 200 Front Street West, Toronto, Ontario M5V 3J1.

2. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the WSIB's first consolidated financial statements prepared in accordance with IFRS; previously the WSIB prepared its annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual consolidated financial statements prepared under Canadian GAAP. The accounting policies set out in note 3 have been consistently applied to all periods presented unless otherwise noted. They also have been applied in the preparation of an opening IFRS consolidated statement of financial position as at January 1, 2010, as required by IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). The transition from Canadian GAAP to IFRS is explained in note 24.

The consolidated financial statements were authorized for issuance by the WSIB's Board of Directors on April 17, 2012.

3. Summary of significant accounting policies

Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis except for the following items:

i) financial instruments classified as at fair value through profit or loss, which are measured at fair value;

ii) investment properties, which are measured at fair value; and

iii) the defined benefit pension and other employee benefit plan liabilities, which are measured as the present value of the defined benefit obligation less the fair value of plan assets.

Basis of consolidation

a) Subsidiaries

Subsidiaries are entities controlled by the WSIB.

The financial statements of subsidiaries are included in the WSIB's consolidated financial statements from the date control commences until the date control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to reflect accounting policies consistent with those of the WSIB. All intercompany transactions and balances are eliminated.

The majority of the WSIB's investment portfolio is held in subsidiaries in which the WSIB's employee pension plan is a non-controlling interest. These subsidiaries include the following:

i) Diversified Beta Strategies Ltd.

ii) WSIB Investments (Fixed Income) Pooled Fund Trust;

iii) WSIB Investments (Infrastructure) Pooled Fund Trust;

iv) WSIB Investments (Public Equities) Pooled Fund Trust;

v) WSIB Investments (Realty) Limited; and

vi) WSIB Investments (Total Return) Pooled Fund Trust.

b) Non-controlling interests

Non-controlling interests represent other investors' proportionate interest of the net assets and comprehensive income of subsidiaries in which the WSIB directly or indirectly owns less than 100%. Comprehensive income and the surplus or deficiency of assets related to these subsidiaries is allocated to WSIB stakeholders and non-controlling interests.

c) Investments in associates and jointly controlled entities

Associates are entities over which the WSIB has significant influence, but not control. Generally, the WSIB is considered to have significant influence when it owns more than 20% of an entity, but does not control or jointly control that entity. Jointly controlled entities are entities over whose activities the WSIB has joint control. Joint control exists when the strategic financial and operating decisions related to the entity require unanimous consent of parties sharing control.

Investments in associates and jointly controlled entities are accounted for using the equity method. Under the equity method, investments are initially recognized at cost and adjusted for the WSIB's proportionate share of the associates' or jointly controlled entity's net income or loss. The consolidated financial statements include the WSIB's share of the net income and losses and any equity movements of investments in associates and jointly controlled entities from the date significant influence or joint control commences until the date significant influence or joint control ceases. When the WSIB's share of losses exceeds its interest in an investment in an associate or jointly controlled entity, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent the WSIB has an obligation or has made payments on behalf of the investee.

d) Jointly controlled assets

Jointly controlled assets are investments in economic activities over which the WSIB has joint control. Joint control exists when the strategic and operating decisions related to the assets require unanimous consent of parties sharing control.

These consolidated financial statements include the WSIB's share of the jointly controlled assets and its share of the liabilities incurred jointly with the other investors. The consolidated financial statements also include WSIB's share of the revenues generated and expenses incurred by the economic activity related to the jointly controlled assets from the date joint control commences until the date joint control ceases.

Business combinations

At times, the WSIB's investments in investment properties are acquired through business combinations. Acquisitions of businesses are accounted for using the acquisition method. The acquiree's identifiable assets and liabilities are recognized at their fair values at the date of acquisition. The transaction costs associated with business combinations are expensed as incurred.

Foreign currency

The WSIB's functional and presentation currency is the Canadian dollar. The Canadian dollar is also the functional currency of each of the WSIB's subsidiaries, associates and joint ventures.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the period-end rates of exchange. Non-monetary assets and liabilities that are measured at fair value are also translated at the period-end rates of exchange. Foreign exchange gains and losses are recognized in the consolidated statements of comprehensive income (loss).

Financial instruments

The WSIB recognizes financial assets and financial liabilities when it becomes a party to a contract. Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position only when the WSIB has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities, with the exception of financial assets classified as at fair value through profit or loss, are measured at fair value plus transaction costs on initial recognition. Financial assets at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Measurement in subsequent periods depends on the classification of the financial instrument. WSIB's financial assets and financial liabilities are classified as follows:

Financial asset or financial liability	Classification
Cash and cash equivalents	At fair value through profit and loss (a)
Receivables	Loans and receivables (b)
Investment receivables	Loans and receivables (b)
Investments	At fair value through profit and loss (a)
Investments under securities lending program	At fair value through profit and loss (a)
Payables and accruals	Other financial liabilities (c)
Investment payables	Other financial liabilities (c)
Long-term debt	Other financial liabilities (c)

a) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivative assets. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of comprehensive income (loss).

Investments and investments under the WSIB's securities lending program are managed based on their fair value in accordance with the WSIB's documented risk management or investment strategy.

b) Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method. Loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

c) Other financial liabilities

Other financial liabilities are financial liabilities that are not derivative liabilities or classified as FVTPL. Subsequent to initial recognition, other financial liabilities are carried at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount on initial recognition.

Interest income is recognized when it is earned and dividend income is recognized when the WSIB's right to receive payment has been established. Interest income and dividend income are included in investment income on the consolidated statement of comprehensive income (loss).

Investment property

Investment property is property held either to earn rental income or for capital appreciation, or both. Investment properties acquired through a business combination are recognized at fair value and the related transaction costs are expensed as incurred. Investment properties acquired through an asset purchase are recognized at cost, which includes transaction costs. Subsequent to initial recognition, investment properties are measured at fair value with changes in fair value recognized as investment income during the period in which they arise.

Fair values of investment properties are estimated based on annual valuations performed by qualified independent appraisers. On a quarterly basis, the fair value of investment properties are updated based on internal valuation models incorporating available market evidence. The valuations are primarily based on discounted expected future cash flows of each property, using a discount and terminal capitalization rate reflective of the characteristics, location and market of each property. The future cash flows of each property are based on, among other things, rental income from current leases and assumptions about rental income from future leases reflecting current conditions, less future cash outflows relating to such current and future leases.

Property and equipment

Property and equipment are measured at cost less accumulated amortization and any accumulated impairment losses. When significant components of an item of property and equipment have different useful lives, they are accounted for as separate items.

Property and equipment is amortized on a straight-line basis over their estimated useful lives as follows:

Land	Not amortized
Buildings	
Primary structure	60 years
Components with different useful lives	10 - 30 years
Leasehold Improvements	lesser of the lease term or 10 years
Office and computer equipment	3 - 5 years

Intangible assets

Intangible assets, which include internally developed and acquired software, are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful lives of three to five years.

Development costs associated with internally developed computer software are recognized as an intangible asset when certain criteria are met. The criteria to capitalize development costs include the WSIB's intention and ability to complete the development of the software from which it is probable the WSIB will generate future economic benefits.

Leases

Leases are classified as either finance or operating leases. Finance leases are those that substantially transfer the benefits and risks of ownership of an asset to the lessee.

a) Leases where the WSIB is the lessee

Assets held under finance leases are recognized as assets and included in property and equipment. At the inception of the lease, the asset is measured at the lower of the present value of minimum lease payments and the fair value of the leased asset. A corresponding liability is recognized as a finance lease obligation. Lease payments are apportioned between interest expense and a reduction of the lease obligation to achieve a constant rate of interest on the remaining liability.

Total payments under operating leases are recognized as an expense in administration and other expenses on a straight-line basis over the term of the relevant lease. As an exception, operating leases for investment property are accounted for as a finance lease. Investment property held under operating leases are recognized as an asset and measured at fair value.

b) Leases where the WSIB is the lessor

All leases to which the WSIB is the lessor are leases of its investment property and have been determined to be operating leases. Rental revenue from operating leases is recognized in investment income on a straight-line basis over the term of the lease.

Impairment of non-financial assets

At each reporting date, the WSIB's property and equipment and intangible assets are reviewed to determine whether there is an indication those assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the

consolidated statement of comprehensive income (loss). The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing for indications of impairment and impairment testing, assets that do not have largely independent cash inflows are grouped into cash-generating units. Cash-generating units are the smallest identifiable groups of assets with independent cash inflows.

An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount. When an impairment loss is reversed, the carrying amount of the asset is increased only to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed what the carrying amount would have been had no impairment losses been recognized for the asset in prior years.

Premium revenues

Premium revenues are comprised of premiums from Schedule 1 employers and administration fees from Schedule 2 employers.

a) Schedule 1 employer premiums

Schedule 1 employers are those for which the WSIB is liable to pay benefit compensation for workers' claims. Schedule 1 employers are required by legislation to pay premiums to the WSIB, which are fully earned and recognized over the period that coverage is provided.

b) Schedule 2 employer administration fees

Schedule 2 employers are employers that self-insure the provisions of benefits under the WSIA. Schedule 2 employers are liable to pay all benefit compensation and administration costs for their workers' claims.

The WSIB administers the payment of the benefits for workers of Schedule 2 employers and recovers the cost of these benefits plus administration fees from the employers. The administration fees are recognized as the services are provided. The benefits paid on behalf of Schedule 2 employers and the amounts collected to recover the benefits paid are not included in the WSIB's revenue or expenses.

Loss of Retirement Income Fund liability

The Loss of Retirement Income Fund liability represents an obligation for payments of retirement benefits to certain workers. The WSIB makes contributions to the Loss of Retirement Income Fund for injured workers who have received loss of earnings benefits for twelve continuous months. The WSIB's contributions, and any voluntary contributions from injured workers, are segregated within the WSIB's investment portfolio as the Loss of Retirement Income Fund.

The WSIB's obligation to the injured worker is to provide retirement benefits equal to the total contributions plus income earned on those contributions. As such, the Loss of Retirement Income Fund liability is measured as the fair value of the assets in the Loss of Retirement Income Fund. The WSIB's contributions to the Loss of Retirement Income Fund are recognized as the Loss of Retirement Income Fund contributions expense.

Benefit liabilities

Benefit liabilities represent the actuarially determined present value of the estimated future payments for reported and unreported claims related to workers of Schedule 1 employers incurred on or prior to the reporting date. These future payments are for loss of earnings, labour market re-entry, short and long-term disability, health care, survivor benefits, retirement income benefits, and claim administration costs. The benefit liabilities are determined by estimating future benefit payments in accordance with the adjudication practices and relevant legislation in effect at December 31. Changes in the benefit liabilities are recognized in benefit costs in the consolidated statement of comprehensive income (loss).

The benefit liabilities do not include any amounts for claims related to workers of Schedule 2 employers; these claims are ultimately paid by the self-insured Schedule 2 employers.

Employee future benefits

The WSIB maintains two employee defined benefit pension plans, and a plan that provides other long-term employee benefits. The obligations for these plans are measured individually as the present value of the benefit obligation less the fair value of plan assets and are included in the employee benefit plans liability.

a) Defined benefit pension plans

The cost of the defined benefit plans is actuarially determined using the projected unit credit method and management's best estimate of expected plan investment performance, compensation level increases and retirement ages of workers.

Actuarial gains and losses are recognized in the consolidated statement of comprehensive income (loss) based on the corridor method. Under the corridor method, net actuarial gains and losses are amortized when the amount exceeds 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year. The net actuarial gains or losses in excess of this threshold are amortized on a straight-line basis over the average remaining service period of active workers expected to receive benefits under the plan.

b) Other long-term employee benefits

Other long-term employee benefits include post-retirement dental, extended health and life insurance benefits. The cost of other long-term employee benefits is actuarially determined and represents the amount of future benefit that workers have earned in return for their service in the current and prior periods.

Statements of cash flows

The WSIB's statements of cash flows are presented using the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. In previous annual consolidated financial statements, the WSIB presented its statements of cash flows using the direct method, whereby major classes of gross cash receipts and gross cash payments were disclosed.

4. Critical accounting estimates and judgments

The preparation of these consolidated financial statements requires the WSIB to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the consolidated financial statements, and actual results could differ from estimates. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

In addition, the WSIB has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can have an effect on the amounts recognized in the consolidated financial statements.

Benefit liabilities (note 18)

Benefit liabilities represent the actuarially determined present value of future payments for reported and unreported claims related to workers of Schedule 1 employers incurred on or prior to the reporting date. The measurement of the benefit liabilities requires the chief actuary to make estimates and assumptions for a number of factors, including those for claim duration, mortality rates, wage escalation, expected return on investments, general inflation and discount rates. Changes in these estimates and assumptions could have an impact on the measurement of the benefit liabilities and benefit costs.

Employee benefit plans (note 17)

The costs and liabilities associated with defined benefit pension plans and other long-term employee benefit plans are determined in accordance with actuarial valuations. The actuarial valuations rely on estimates and assumptions including those for wage escalation, expected return on plan assets, health care and dental cost inflation, retirement ages, life expectancies and discount rates. Changes in these estimates could have an impact on the employee benefit plans liability and employee benefit costs.

Fair value measurement of financial instruments (note 20)

Where possible, the fair value of publicly traded financial instruments is based on quoted market prices. The fair value for a substantial majority of financial instruments is based on quoted market prices or valuation models that use observable market inputs such as interest rate yield curves. Valuation models incorporate prevailing market rates and may require estimates for economic risks and projected cash flows. Note 20 provides the estimated fair values of financial instruments categorized by the nature of the inputs used in the valuation techniques.

Fair value measurement of investment properties (note 11)

Investment properties are re-measured to fair value at each reporting date, estimated based on annual valuations performed by third-party appraisers. On a quarterly basis, the fair value of investment properties are updated based on internal valuation models incorporating available market evidence. When estimating the fair value of investment properties, the third-party appraisers and management make estimates and assumptions that have a significant effect on the reported value of investment properties. Estimates and assumptions used in determining the fair value of the investment properties include discount and terminal capitalization rates, inflation rates, vacancy rates, and future net cash flows of the property.

Transition to IFRS (note 24)

The transition to IFRS required management to make judgments in the application of IFRS 1. These judgments have an effect on the measurement of assets and liabilities in the opening IFRS consolidated statement of financial position at January 1, 2010. Note 24 includes an explanation of the transition to IFRS, including the application of IFRS 1, and the impact on the WSIB's consolidated financial statements.

5. Future changes in accounting standards

The following new or amended accounting standards have been issued by the International Accounting Standards Board ("IASB"). These new or amended standards are not yet effective and the WSIB has not completed its assessment of their impact on its consolidated financial statements.

IFRS 9 *Financial Instruments* ("IFRS 9")

IFRS 9 was issued in November 2009, and subsequently revised in October 2010 as part of the IASB's ongoing project to replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or at fair value, replacing the multiple classifications in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also includes guidance on the classification and measurement of financial liabilities, which largely carried forward the existing requirements in IAS 39.

IFRS 10 *Consolidation* ("IFRS 10")

IFRS 10 was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IAS 27 *Consolidated and Separate Financial Statements* ("IAS 27"), consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 will replace SIC 12 *Consolidation - Special Purpose Entities* and parts of IAS 27.

IFRS 11 *Joint Arrangements* ("IFRS 11")

IFRS 11 was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 11 requires interests in joint arrangements to be classified as a joint venture or joint operation. A joint arrangement is an arrangement in which two or more parties have joint control. Joint ventures will be accounted for using the equity method of accounting whereas a party with joint control of a joint operation will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in certain joint ventures. IFRS 11 will replace IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*.

In conjunction with the issue of IAS 11, IAS 28 *Investments in Associates* was amended to include joint ventures within its scope, and to address the guidance included in IFRS 10 and IFRS 12 *Disclosure of Interests in Other Entities*. IAS 28 has been retitled *Investments in Associates and Joint Ventures*.

IFRS 12 *Disclosures of Interests in Other Entities* ("IFRS 12")

IFRS 12 was issued in May 2011, and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The IFRS standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard also requires enhanced disclosures of how control was determined and any restrictions that might exist on consolidated assets and liabilities within the consolidated financial statements.

IFRS 13 *Fair Value Measurement* ("IFRS 13")

IFRS 13 was issued in May 2011, and is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 13 defines fair value and sets out a single IFRS framework for measuring fair value that is applied in most circumstances where IFRS requires or permits measurements or disclosures of fair value. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. IFRS 13 also establishes disclosures about fair value measurement.

IAS 19 *Employee Benefits* ("IAS 19")

Amendments to IAS 19 were issued in June 2011. The amended standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

The amendments to IAS 19 include eliminating the corridor approach to recognizing actuarial gains and losses. Entities will also need to segregate changes in the defined benefit obligation and in the fair value of plan assets into three components: service costs; net interest on the net defined benefit liabilities (assets); and remeasurements of the net defined benefit liabilities (assets). The amendments also enhance disclosure about the risks arising from defined benefit plans.

IAS 1 *Financial Statement Presentation* ("IAS 1")

Amendments to IAS 1 were issued in June 2011. The amended standard is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

The amendments to IAS 1 will require entities to group items presented in other comprehensive income based on an assessment of whether such items may, or may not, be reclassified to earnings at a subsequent date.

IAS 32 *Financial Instruments: Presentation* ("IAS 32")
and IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7")

Amendments to IAS 32 and IFRS 7 were issued in December 2011. The amended IFRS 7 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The amended IAS 32 is effective for annual periods beginning on or after January 1, 2014 with earlier application permitted.

The amendments to IAS 32 clarify the existing requirements for offsetting financial instruments. The amendments to IFRS 7 include new disclosure requirements intended to facilitate comparisons to financial statements prepared under US GAAP.

Exposure Drafts

a) Insurance contracts

In July 2010, the IASB issued an exposure draft containing proposals for significant changes to the existing recognition, measurement, presentation, and disclosure requirements for insurance contracts. The IASB continues to work on these proposals with the objective of finalizing a new standard to replace IFRS 4 *Insurance Contracts*. This is an important standard that may have a significant impact on the WSIB's consolidated financial statements, however the new standard is not finalized and will not have an impact until it is issued and effective. The date the new standard will be issued and the date the new standard will be effective are uncertain.

b) Other

The IASB regularly issues exposure drafts with proposals for new standards or amendments to existing standards. The WSIB's consolidated financial statements do not include disclosure of all exposure drafts issued by the IASB.

6. Revenues

	2011	2010
Premiums		
Schedule 1 employer premiums	3,814	3,449
Schedule 2 employer administration fees	62	58
	3,876	**3,507**
Net investment income (note 9)	**296**	**1,207**
	4,172	**4,714**

Premiums

Schedule 1 employers are those for which the WSIB is liable to pay benefit compensation for workers' claims. Premiums are primarily derived from total insurable payrolls of Schedule 1 employers and are recognized over the period coverage is provided. Premiums also include:

i) experience rating refunds and surcharges, which are assessed based on the employers' actual workplace injury experience and are recognized when determined; and

ii) interest and penalties, which are recognized when assessed.

Schedule 2 employers are employers that self-insure the provision of benefits under the WSIA. The WSIB administers the payment of the benefits for workers of Schedule 2 employers. The Schedule 2 employer administration fees represent revenue received for the administration of Schedule 2 benefit payments.

Net investment income

Details of net investment income are provided in note 9.

7. Administration and other expenses

Administration and other expenses for the year ended December 31 are comprised of the following:

	2011	2010
Salaries and short-term benefits	374	348
Long-term benefit plans	90	90
Impairment of intangible assets	51	-
Facilities	42	42
Bad debts	38	56
Equipment and maintenance	32	37
Amortization	22	21
Other	16	16
Communications	10	11
Travel and vehicle maintenance	6	5
New systems development and integration	6	2
Supplies and services	5	5
	692	633
Claim administration costs allocated to benefit costs (note 18)	(368)	(342)
	324	**291**

Claim administration costs allocated to benefit costs represent management's estimate of the administration and other expenses incurred to adjudicate and administer claims, and to process claim payments. These costs are allocated to benefit costs. Note 18 provides further details on the benefit liabilities and benefit costs.

8. Cash and cash equivalents

Highly liquid investments with a maturity of three months or less from the date of purchase are considered to be cash equivalents. Cash and cash equivalents are comprised of following:

	December 31 2011	December 31 2010	January 1 2010
Cash	467	393	50
Short-term money market securities	516	616	377
	983	**1,009**	**427**

For management purposes, cash and cash equivalents are held as follows:

	December 31 2011	December 31 2010	January 1 2010
For operating purposes	328	306	45
Held in Investment portfolio (note 9)	502	557	365
Held in Loss of Retirement Income Fund (note 16)	153	146	17
	983	**1,009**	**427**

9. Investments and net investment income

Investment portfolio

The Board of Directors of the WSIB has established a Statement of Investment Policies and Procedures ("SIPP"), which establishes the policies governing the WISB's investment portfolio. The SIPP is reviewed by the Board of Directors on no less than an annual basis and is amended as required.

The SIPP requires that the WSIB's investment portfolio be diversified across certain asset classes and investment strategies. Accordingly, the investment portfolio is currently diversified among five primary asset classes as follows:

Fixed income	Bonds, debentures, loans, notes, mortgages and other fixed income investments.
Public equities	Investment in the equity, or securities convertible into equity of public corporations.
Total return strategies	Investments that seek to provide a diversified source of total return generated from the broad market and from active management. Investments within total return strategies may include derivatives, commodities, currencies, hedge funds, equities and fixed income investments.
Real estate	Real estate debentures and properties in Canada diversified across office, retail, industrial and mixed use assets.
Infrastructure	Investments in transportation, utilities, energy and health-care facilities.

The following provides a summary of the nature of the investments in the investment portfolio by category as defined by the SIPP:

	Fixed income	Public equities	Total return strategies	Real estate	Infrast-ructure	Other	Dec. 31 2011 Total	Dec. 31 2010 Total	Jan. 1 2010 Total
Equity securities	-	6,461	414	-	-	-	6,875	7,456	7,780
Fixed income securities	5,023	-	314	-	-	-	5,337	5,070	4,915
Hedge funds	-	-	1,344	-	-	-	1,344	857	429
Real estate debentures	-	-	-	337	-	-	337	308	284
Pooled funds	-	-	-	-	134	-	134	99	-
Annuities	-	-	-	-	-	74	74	67	60
Foreign exchange contracts	-	32	37	-	2	-	71	22	48
Futures	-	-	(1)	-	-	-	(1)	4	-
Investments and investments under securities lending program	5,023	6,493	2,108	337	136	74	14,171	13,883	13,516
Investment in associates and jointly controlled entities	-	-	-	350	25	-	375	344	272
Investment property	-	-	-	488	-	-	488	402	264
Investment receivables	38	42	31	2	2	-	115	73	76
Investment payables	(3)	(20)	-	-	-	-	(23)	(24)	(20)
Cash and cash equivalents	6	187	264	35	10	-	502	557	365
Total investment portfolio	**5,064**	**6,702**	**2,403**	**1,212**	**173**	**74**	**15,628**	**15,235**	**14,473**
December 31, 2011 - % of total	32.4%	42.9%	15.4%	7.7%	1.1%	0.5%			
December 31, 2010 - % of total	33.3%	50.0%	8.5%	7.0%	0.8%	0.4%			
January 1, 2010 - % of total	34.3%	56.3%	3.2%	5.8%	0.0%	0.4%			

Holdings in the WSIB's investment portfolio are held directly or held indirectly through investments in subsidiaries, associates, jointly controlled entities or jointly controlled assets.

The WSIB's investment portfolio is presented on the consolidated statements of financial position within the following line items:

	December 31 2011	December 31 2010	January 1 2010
Investments	13,648	13,324	12,273
Investments under securities lending program (a)	523	559	1,243
Investment receivables	115	73	76
Investment payables	(23)	(24)	(20)
Investments in associates and jointly controlled entities(note 10)	375	344	272
Investment property (note 11)	488	402	264
Cash and cash equivalents (note 8)	502	557	365
	15,628	**15,235**	**14,473**

a) The WSIB participates in a securities lending program through an intermediary for the purpose of generating fee income. Non-cash collateral, the fair value of which represents at least 102% of the fair value of the loaned securities, is maintained until the underlying securities have been returned to the WSIB. The fair value of the loaned securities is monitored on a daily basis by an intermediary financial institution with additional collateral obtained or refunded as the fair value of the underlying securities fluctuates. While in the possession of counterparties, the loaned securities may be resold or repledged by such counterparties. The intermediary indemnifies the WSIB against any shortfalls in collateral. These transactions are conducted under terms that are usual and customary to security lending activities as well as requirements determined by exchanges where a financial institution acts as an intermediary.

Under the terms of the securities lending program, the WSIB retains substantially all the risks and rewards of ownership of the loaned securities and also retains contractual rights to the cash flows. These securities are not derecognized from the consolidated statements of financial position and are reclassified as investments under the securities lending program.

As at December 31, 2011, the fair value of securities maintained as collateral was approximately $551 (December 31, 2010: $591; January 1, 2010: $1,310).

Net investment income

Net investment income by category of investments for the years ended December 31 is as follows:

	Fixed income	Public equities	Total return strategies	Real estate	Infra-structure	Other	2011 Total	2010 Total
Equity securities	-	(438)	(12)	-	-	-	(450)	641
Fixed income securities	477	-	25	-	-	-	502	353
Amortization of premium/discounts on bonds	(14)	-	2	-	-	-	(12)	(19)
Hedge funds	-	-	168	-	-	-	168	67
Real estate debentures	-	-	-	60	-	-	60	37
Pooled funds	-	-	-	-	11	-	11	(3)
Annuities	-	-	-	-	-	10	10	6
Foreign exchange contracts	-	(33)	(45)	-	(2)	-	(80)	172
Futures	-	-	76	-	-	-	76	4
Short-term securities	-	-	-	-	-	4	4	2
Income from associates and jointly controlled entities	-	-	-	32	2	-	34	60
Investment property	-	-	-	97	-	-	97	66
Investment expenses	(1)	(36)	(23)	(26)	(4)	-	(90)	(84)
Less: income attributable to Loss of Retirement Income Fund (note 16)	(30)	31	(14)	(9)	(1)	(11)	(34)	(95)
	432	**(476)**	**177**	**154**	**6**	**3**	**296**	**1,207**

Net investment income for the years ended December 31 is comprised of:

	2011	2010
Realized and unrealized gains	2,986	2,693
Realized and unrealized losses	(3,152)	(1,853)
Interest and dividend income	455	420
Investment property	97	66
Income attributable to Loss of Retirement Income Fund (note 16)	(34)	(95)
Investment income	**352**	**1,231**
Investment expenses	(90)	(84)
Income from associates and jointly controlled entities	34	60
	296	**1,207**

10. Investments in associates and jointly controlled entities

Investments in associates and jointly controlled entities are comprised of the following:

	December 31 2011	December 31 2010	January 1 2010
Investment in associates	9	12	12
Investments in jointly controlled entities	366	332	260
	375	**344**	**272**

Income from associates and jointly controlled entities for the year ended December 31 is comprised of the following:

	2011	2010
Loss from associates	(2)	-
Income from jointly controlled entities	36	60
	34	**60**

Investments in associates

Associates are entities over which the WSIB has significant influence, but not control. Generally, the WSIB is considered to have significant influence when it owns more than 20% of an entity, but does not control or jointly control that entity. Investments in associates are accounted for using the equity method (note 3).

	2011	2010
Investment in associates, beginning of year	12	12
Additional investment	1	-
Return of capital	(1)	-
WSIB's share of net loss from associates	(2)	-
Dividends received and receivable	(1)	-
Investment in associates, end of year	9	12

As at December 31, 2011 the WSIB had $39 (2010 - $10) of outstanding commitments for additional investments in existing associates.

The following provides a summary of the financial position information of the WSIB's associates:

	December 31 2011	December 31 2010	January 1 2010
Total assets	60	78	79
Total liabilities	28	38	39
Net assets	32	40	40
WSIB's share of net assets	9	12	12

The following provides a summary of the net loss of the WSIB's associates:

	Year ended Dec 31	
	2011	**2010**
Revenue	2	3
Expenses	(12)	(5)
Gain on sale of investment properties	2	-
Net loss	(8)	(2)
WSIB's share of net loss	(2)	-

Investments in jointly controlled entities

Jointly controlled entities are entities over whose activities the WSIB has joint control. Joint control exists when the strategic and operating decisions related to the entity require unanimous consent of parties sharing control. Investments in jointly controlled entities are accounted for using the equity method (note 3). The WSIB's ownership in the jointly controlled entities, which hold investment properties, ranges from 38% to 77%. While the WSIB's ownership in certain jointly controlled entities is greater or less than 50%, there are contractual agreements in place requiring unanimous consent for significant strategic and operating decisions.

	2011	**2010**
Investment in jointly controlled entities, beginning of year	332	260
Additional investment	9	23
Return of capital	(4)	-
WSIB's share of net income from jointly controlled entities	36	60
Dividends received and receivable	(7)	(11)
Investment in jointly controlled entities, end of year	366	332

As of December 31, 2011 the WSIB had commitments to make additional capital contributions of $201 to jointly controlled entities. As at December 31, 2011, the jointly controlled entities had total commitments to fund loans for qualified projects over the next five years in the amount of $138 from the capital contributions from its investors. The WSIB's ownership share represents $106 of these commitments.

The following provides a summary of the financial position information of the WSIB's jointly controlled entities:

	December 31 2011	**December 31 2010**	**January 1 2010**
Total assets	1,213	1,124	942
Total liabilities	389	363	336
Net assets	824	761	606
WSIB's share of net assets	366	332	260

The following provides a summary of the net income of the WSIB's jointly controlled entities:

	Year ended Dec 31	
	2011	**2010**
Revenue	119	102
Expenses	(74)	(68)
Fair value gains on investment properties	37	109
Net income	82	143
WSIB's share of net income	36	60

11. Investment property

The reconciliation of carrying amounts for investment properties is set forth below:

	2011	**2010**
Balance, beginning of year	402	264
Additions:		
Through asset acquisitions	-	19
Through business combinations	77	99
Capital expenditures	7	1
Gains from increases in fair value	48	19
Disposals	(46)	-
Balance, end of year	488	402

Rental income and operating expenses

Rental income from investment properties during the year was $49 (2010: $47) and is included in investment income (note 9). Operating expenses from investment properties during the year was $25 (2010: $28), and is included in investment expenses (note 9).

Business combinations

During 2011, the WSIB acquired two income-producing investment properties through the acquisition of 100% of two businesses for total purchase consideration of $79. During 2010, the WSIB acquired two income-producing investment properties through the acquisition of 100% of one business and 80% another for total purchase consideration of $88.

Assets acquired and liabilities assumed were as follows:

	2011	**2010**
Cash and cash equivalents	4	3
Receivables and other assets	-	2
Investment property	77	99
Payables	(2)	(2)
	79	102

During 2011, the WSIB sold an investment property through the disposition of a business for net proceeds of $47. A gain on the sale of the business of $0.3 is included in investment income.

Fair value measurements

Fair values of investment properties are estimated based on annual valuations performed by qualified independent appraisers. On a quarterly basis, the fair values of investment properties are updated based on internal valuation models incorporating available market evidence. The fair values of investment properties are estimated using the direct capitalization income approach or the discounted cash flow method.

Under the direct capitalization income approach, capitalization rates are applied to the stabilized net operating income of each property. The following significant assumptions were used in the determination of estimated fair value using this approach:

	December 31 2011	December 31 2010	January 1 2010
Office properties			
Capitalization rates	6.3% - 8.0%	7.3% - 7.8%	7.8% - 8.5%
Industrial properties			
Capitalization rates	6.3% - 9.0%	7.0% - 9.3%	7.1% - 9.3%

Under the discounted cash flow method, the present value of expected future cash flows is estimated. The following significant assumptions were used in the determination of estimated fair value using this method:

	December 31 2011	December 31 2010	January 1 2010
Office properties			
Discount rates	7.3% - 8.5%	7.8% - 9.0%	8.0% - 10.0%
Terminal capitalization rates	6.5% - 8.0%	7.3% - 7.8%	7.8% - 8.3%
Industrial properties			
Discount rates	7.3% - 8.3%	7.5% - 8.5%	8.3%
Terminal capitalization rates	6.8% - 7.5%	7.3% - 7.8%	7.4%

Leases of investment properties

The WSIB is the lessor to a number of operating leases of its investment properties. These leases typically have a term of 2 to 10 years, with an option to renew. All operating lease contracts contain market review clauses in the event the lessee exercises its option to renew. The leases do not provide the lessee with an option to purchase the property at the end of the lease term.

The future minimum lease payments to be received under non-cancellable leases are as follows:

	Minimum lease payments
Not later than one year	20
Later than one year and not later than five years	70
Later than five years	54
	144

During the year ended December 31, 2011, $27 (2010 - $27) of lease payments were recognized in investment income.

12. Jointly controlled assets

Jointly controlled assets are investments in economic activities over which the WSIB has joint control. Joint control exists when the strategic financial and operating decisions related to the assets require unanimous consent of parties sharing control.

These consolidated financial statements include the WSIB's share of the jointly controlled assets and its share of the liabilities incurred jointly with the other investors. The consolidated financial statements also include WSIB's share of the revenues generated and expenses incurred by the economic activity related to the jointly controlled assets.

The WSIB's ownership interests in jointly controlled assets at December 31, 2011 is as follows:

	Ownership
Simcoe Place (a)	75%
Mississauga property (b)	50%

a) The WSIB has a 75% undivided co-ownership interest in Simcoe Place, an office tower situated at 200 Front Street West, Toronto Ontario. The WSIB occupies approximately 71% of the premises and recognizes its share of the property within property and equipment and its share of operating expenses in administration and other expenses. As at December 31, 2011, the WSIB had no capital commitments with respect to Simcoe Place.

b) The WSIB has a 50% undivided co-ownership interest in an office and retail complex of four office buildings and adjoining development lands located in the City of Mississauga. As at December 31, 2011, the WSIB had no capital commitments with respect to the Mississauga property.

The following amounts related to the jointly controlled assets are included in the WSIB's consolidated financial statements:

	Simcoe Place	Mississauga Property	Dec. 31 2011 Total	Dec. 31 2010 Total	Jan. 1 2010 Total
Other assets	6	5	11	7	2
Property and equipment	153	-	153	156	162
Investment property	-	66	66	68	68
Payables	(5)	(2)	(7)	(8)	(10)
Long-term debt	(82)	-	(82)	(84)	(86)
Net Assets	72	69	141	139	136
Investment income	-	9	9	15	12
Investment expenses	-	(5)	(5)	(8)	(9)
Administration and other expense	(29)	-	(29)	(29)	(29)
Comprehensive income (loss)	(29)	4	(25)	(22)	(26)

13. Property and equipment

	Land	Buildings	Leasehold improvements	Office and computer equipment	Total
Cost					
Balance at January 1, 2010	40	120	92	186	438
Additions	-	-	-	12	12
Balance at December 31, 2010	40	120	92	198	450
Additions			1	9	10
Disposals	-	-	(26)	(178)	(204)
Balance at December 31, 2011	40	120	67	29	256
Accumulated Amortization					
Balance at January 1, 2010	-	-	71	180	251
Amortization	-	3	5	5	13
Balance at December 31, 2010	-	3	76	185	264
Amortization		3	5	5	13
Disposals			(26)	(177)	(203)
Balance at December 31, 2011	-	6	55	13	74
Carrying amount					
At January 1, 2010	40	120	21	6	187
At December 31, 2010	40	117	16	13	186
At December 31, 2011	40	114	12	16	182

Amortization of property and equipment is included in administration and other expenses on the consolidated statements of comprehensive income (loss).

The WSIB has a 75% undivided co-ownership interest in Simcoe Place, and occupies approximately 71% of the property. The WSIB's share of the land, building and leasehold improvements is included in property and equipment.

Property and equipment includes the following carrying values for assets under finance lease:

	December 31 2011	December 31 2010	January 1 2010
Land	40	40	40
Office and computer equipment	6	9	3
	46	**49**	**43**

14. Intangible assets

	Internally developed software	Acquired software	Total
Cost			
Balance at January 1, 2010	100	60	160
Additions	14	3	17
Balance at December 31, 2010	114	63	177
Additions	14	2	16
Disposals	(2)	(60)	(62)
Impairment	(51)	-	(51)
Balance at December 31, 2011	75	5	80
Accumulated amortization			
Balance at January 1, 2010	9	55	64
Amortization	8	4	12
Balance at December 31, 2010	17	59	76
Amortization	9	3	12
Disposals	-	(58)	(58)
Balance at December 31, 2011	26	4	30
Carrying amounts			
At January 1, 2010	91	5	96
At December 31, 2010	97	4	101
At December 31, 2011	49	1	50

The carrying amount for internally developed software at December 31, 2011 includes $25 of costs for software that is not yet available for use and therefore is not yet subject to amortization (December 31, 2010 - $68; January 1, 2010 - $63).

Amortization and impairment of intangible assets is included in administration and other expenses on the consolidated statements of comprehensive income (loss).

Impairment

During the year ended December 31, 2011, management determined that certain elements of internally developed software may not be implemented as originally intended due to business transformation initiatives. An impairment charge of $51 was recognized in the consolidated statements of comprehensive income (loss) and the carrying amount of the impaired elements of internally developed software was reduced to its recoverable amount of $nil.

15. Long-term debt

Long-term debt is comprised of the following:

	December 31 2011	December 31 2010	January 1 2010
Mortgages payable	93	96	97
Obligations under finance leases	50	53	29
	143	149	126
Current portion	(6)	(6)	(13)
	137	143	113

Mortgages payable

The WSIB has a mortgage loan agreement related to Simcoe Place (note 12) that is secured by the building and matures in 2015. The interest rate is fixed at 10.25% per annum compounded semi-annually. The balance of this mortgage as at December 31, 2011, was $62 (December 31, 2010 - $64; January 1, 2010 - $66). For the year ended December 31, 2011, interest of $6 was included in administration and other expenses (2010 - $7).

Mortgages related to investment properties are held with a total principal balance of $31 (December 31, 2010 - $32; January 1, 2010 - $31). The mortgages have annual fixed interest rates of 4.19% to 6.08%, and mature between 2014 and 2015. For the year ended December 31, 2011, interest of $2 was included in investment expenses (2010 - $2).

At December 31, 2011, future principal payments on mortgages payable were as follows:

	Principal payments
Not later than one year	3
Later than one year and not later than five years	90
Later than five years	-
	93

Obligations under finance leases

The WSIB has a finance lease related to the land at Simcoe Place (note 12) with minimum annual lease payments of $4. The lease expires in 2027, at which point the WSIB has an option to purchase a 75% interest in the land for $2. Management considers this option to be advantageous and expects the option will be exercised. The interest rate on this finance lease is 19.6%.

The WSIB has three operating leases for investment properties. The WSIB has elected to measure these investment properties at fair value and to account for the related operating leases as finance leases (note 3). These leases have total annual minimum lease payments of $2 and interest rates of 9.05%. Two of the leases have remaining lease terms of 40 years, the other has a remaining lease term of 76 years.

The WSIB has five finance leases for computer equipment with remaining lease terms of 2 to 4 years and interest rates of 2.75% to 10.47%. The leases have total annual minimum lease payments of $3 for the next 24 months, subsequent to which the total annual minimum lease payments decrease to $0.2.

Future minimum lease payments under finance leases are as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Not later than one year	9	(6)	3
Later than one year and not later than five years	27	(22)	5
Later than five years	133	(91)	42
	169	(119)	50

16. Loss of Retirement Income Fund liability

The Loss of Retirement Income Fund liability represents an obligation for payments of retirement benefits to eligible workers.

	2011	2010
Balance, beginning of the year	1,193	1,054
Contributions from the WSIB	70	73
Optional contributions from injured workers	9	10
Contributions from Schedule 2 employers	5	5
Investment income (note 9)	34	95
Benefits paid in cash	(57)	(44)
Balance, end of year	1,254	1,193

The WSIB contributes 5% of the loss of earnings benefits once a worker of a Schedule 1 employer has been receiving loss of earnings benefits for twelve continuous months. The WSIB's contributions are recognized in the consolidated statement of comprehensive income (loss) as Loss of Retirement Income Fund contributions.

Workers eligible for loss of retirement income benefits can choose to contribute a further 5% from their loss of earnings benefits. Schedule 2 employers are required to contribute 5% of the loss of earnings benefits for their workers once loss of earnings benefits are received for twelve continuous months.

For claims incurred prior to January 1, 1998, the contribution from the WSIB and Schedule 2 employers is 10% of every future economic loss payment made to injured workers.

Total contributions are segregated within the WSIB's investment portfolio as Loss of Retirement Income Fund. The WSIB's obligation pursuant to the WSIA is to provide retirement benefits equal to the WSIB's contributions, contributions from injured workers and contributions from Schedule 2 employers, plus the investment income earned on those contributions. As such, the Loss of Retirement Income Fund is measured as the fair value of the assets in the Loss of Retirement Income Fund.

The assets of the Loss of Retirement Income Fund are included in the total investment portfolio (note 9). The following provides a summary of the assets by category as defined by the WSIB's SIPP:

	Fixed income	Public equities	Total return strategies	Real estate	Infra-structure	Cash and other	Total
December 31, 2011	338	472	148	73	11	212	1,254
% of total	27%	37%	12%	6%	1%	17%	100%
December 31, 2010	396	580	10	-	-	207	1,193
% of total	33%	49%	1%	-	-	17%	100%
January 1, 2010	385	597	-	-	-	72	1,054
% of total	36%	57%	-	-	-	7%	100%

17. Employee benefit plans

The WSIB maintains two employee defined benefit pension plans, and a plan that provides other long-term employee benefits. The cost of employee benefit plans is recognized as the employees provide service to the WSIB, and the obligation for these plans are measured individually as the present value of the benefit obligation less the fair value of plan assets.

The WSIB Employees' Pension Plan provides for partially indexed pensions based on years of service and the best five consecutive years' average earnings in the last 10 years of employment. The WSIB Employee's Supplementary Pension Plan ensures that employees whose earnings exceed the threshold earnings for the maximum pension benefit permitted under the Federal *Income Tax Act* will receive pension benefits based on their total earnings. The other long-term employee benefit plan provides certain post-employment medical, dental and insurance benefits.

Long term benefit plan expense

The cost of the employee benefit plans recognized in Administration and other expenses is as follows:

	2011	2010
Current service cost	73	61
Interest cost	145	143
Expected return on plan assets	(129)	(116)
Actuarial losses recognized	-	1
Other	1	1
	90	**90**

Employee benefit plan liability

The liability for the employee benefit plans is comprised of the following:

	December 31 2011	December 31 2010	January 1 2010
Present value of unfunded obligations	594	541	513
Present value of wholly or partly funded obligations	2,687	2,196	1,921
Total present value of obligations	3,281	2,737	2,434
Fair value of assets	(1,883)	(1,838)	(1,646)
Deficit	1,398	899	788
Unrecognized actuarial losses	(586)	(112)	-
	812	**787**	**788**

The movement in the total present value of defined benefit obligations is as follows:

	Total	
	2011	**2010**
Balance, beginning of year	2,737	2,434
Current service cost	73	61
Interest cost	145	143
Contributions by employees	26	22
Actuarial losses	386	152
Benefits paid	(86)	(75)
Balance, end of year	**3,281**	**2,737**

Benefits paid during 2012 are projected to be $90, and the WSIB's contributions to the plans are projected to be $70.

Fair value of the plan assets

The movement in the total fair value of plan assets is as follows:

	Total	
	2011	**2010**
Balance, beginning of year	1,838	1,646
Expected return on net assets	129	116
Actuarial (losses) gains	(88)	39
Contributions by the WSIB	64	90
Contributions by employees	26	22
Benefits paid	(86)	(75)
Balance, end of year	**1,883**	**1,838**

Plan assets are comprised of the following:

	December 31 2011		December 31 2010		January 1 2010	
	$	%	$	%	$	%
Plan assets by major category						
Equity securities	803	43%	904	49%	938	57%
Debt securities	615	33%	618	34%	581	35%
Real estate	134	7%	112	6%	54	3%
Infrastructure	21	1%	16	1%	-	-
Other	310	16%	188	10%	73	5%
Total	1,883	100%	1,838	100%	1,646	100%

Actuarial assumptions

The significant actuarial assumptions used in the determination of the present value of the defined benefit obligation are as follows:

	December 31 2011	December 31 2010	January 1 2010
Discount rate – plan expenses	5.20%	5.75%	7.00%
Discount rate – accrued benefit obligation	4.25%	5.20%	5.75%
Inflation	2.5%	2.5%	2.5%
Salary increases	3.5 - 4.5%	3.5 - 4.5%	3.5 - 4.5%
Health care increases (i)	9.0%	10.0%	10.0%
Dental increases	4.0%	4.0%	4.0%
Expected rate of return on plan assets (ii)	7.0%	7.0%	7.0%
Average remaining service period (years)	14	12 - 13	13 - 14

i) The assumptions for health care increases are for the subsequent year, after which the increase assumptions decline one hundred basis points per annum to 4.0% in 2017 and thereafter.

ii) The plan assets are managed in accordance with the WSIB's SIPP. The assumption of a 7.0% return on plan assets is based on the SIPP's long-term investment return objective of 6% prior to investment related expenses. Actual return on plan assets for the year ended December 31, 2011 was 2.2% (2010 – 9.4%).

The assumptions for mortality rates are based on the UP94 mortality table using scale AA for pension and benefit plans (unchanged from December 31, 2010 and January 1, 2010).

A one hundred basis point change in the health care and dental trend rates would have the following effect on the defined benefit plan expense and liability:

	One hundred basis point	
	increase	decrease
Increase (decrease) in current service cost	2	(2)
Increase (decrease) in interest cost	4	(3)
	6	(5)
Increase (decrease) in defined benefit obligation	86	(71)

18. Benefit liabilities and benefit costs

Benefit liabilities

Benefit liabilities represent the estimated present value of the WSIB's obligation for future benefit payments of claims related to workers of Schedule 1 employers. The benefit liabilities include reported and unreported claims incurred on or before December 31, 2011, and the estimated cost of administering those claims. The benefit liabilities are based on the level and nature of entitlement under the WSIA and adjudication practices in effect at that date.

The benefit liabilities do not include any amounts for claims related to workers of Schedule 2 employers; the WSIB's payment of those claims is reimbursed by the self-insured Schedule 2 employer on an on-going basis.

Benefit liabilities are actuarially determined in accordance with the standards of practice established by the Canadian Institute of Actuaries.

A summary of the changes in the benefit liabilities is as follows:

	2011	2010
Benefit liabilities, beginning of year	24,350	23,250
Benefit costs	5,258	4,509
Benefit costs paid during the year	(3,218)	(3,409)
Benefit liabilities, end of year	26,390	24,350

The benefit liabilities are comprised of the following:

	2011	2010
Loss of earnings	9,758	8,536
Worker's pension	6,552	6,250
Health care	3,825	3,520
Survivor benefits	2,508	2,194
Future economic loss	2,176	2,203
External providers	261	451
Non-economic loss	274	259
Other	1,036	937
	26,390	24,350

Benefit costs

Benefit costs for the year ended December 31 are comprised of the following:

	2011	2010
Benefit payments	2,850	3,067
Claim administration costs	368	342
Change in actuarial valuation of benefit liabilities	2,040	1,100
	5,258	4,509

Benefit payments represent cash paid during the year to or on behalf of injured workers. Benefit payments for the year ended December 31 are comprised of the following:

	2011	2010
Loss of earnings	1,069	1,117
Worker's pension	678	701
Health care	468	497
Survivor benefits	172	178
Future economic loss	278	292
External providers	86	151
Non-economic loss	88	126
Other	11	5
	2,850	3,067

Change in actuarial valuation

The change in the actuarial valuation of the benefit liabilities is comprised of the following:

	2011	2010
Changes in estimate of cost of claims	(2,525)	(1,829)
Changes in actuarial assumptions	2,860	1,301
Accretion (a)	1,705	1,628
	2,040	1,100

a) Accretion represents the estimated interest cost of the benefits liability, calculated by applying the discount rate to the balance of the benefit liabilities at the beginning of the year.

The changes in actuarial assumptions are comprised of the following:

	2011	2010
Change in discount rate	2,060	-
Change in termination rate	730	593
Change in mortality rate	70	200
Change in occupational disease assumptions	-	600
Other	-	(92)
	2,860	1,301

Assumptions and actuarial methods

The actuarial present value of future benefit payments depends on actuarial assumptions, including economic assumptions, which are based on past experience modified for current trends and expected development. Actuarial assumptions are reviewed annually when the actuarial valuation is performed. Management believes the valuation methods and assumptions are, in aggregate, appropriate for the valuation of benefit liabilities.

The following table summarizes the main underlying actuarial assumptions used in estimating the categories of benefit liabilities.

Actuarial Assumption	Note	Loss of earnings	Worker's pension	Health care	Survivor benefits	Future economic loss	External providers	Non-economic loss
Discount rate	a)	✔	✔	✔	✔	✔	✔	✔
Indexation	a)	✔	✔	n/a	✔	✔	n/a	✔
Wage escalation	a)	✔	✔	n/a	n/a	✔	✔	✔
Health care escalation	a)	n/a	n/a	✔	n/a	n/a	n/a	n/a
Wage loss	b)	✔	n/a	n/a	n/a	✔	n/a	n/a
Mortality	c)	✔	✔	n/a	✔	✔	n/a	✔
Claims incidence	d)	✔	✔	✔	✔	✔	✔	✔
Termination	d)	✔	n/a	n/a	n/a	✔	n/a	n/a
Employment	d)	✔	n/a	n/a	n/a	n/a	n/a	n/a
Occupational diseases	e)	✔	n/a	✔	✔	n/a	✔	✔
Expenses	f)	n/a	n/a	n/a	n/a	n/a	n/a	n/a

a) Economic assumptions

The following provides a summary of the primary economic assumptions used in the actuarial valuation of the benefit liabilities:

	2011	2010	Change
Discount rate	2012 - 2015 - 5.5% thereafter - 6.0%	7.0%	2012 - 2015 - 1.5% thereafter - 1.0%
Indexation of benefits rate			
Fully indexed to inflation	2.5%	2.5%	-
Partially indexed	0.5%	0.5%	-
Wage escalation rate	3.5%	3.5%	-
Health care costs escalation rate	6.5%	6.5%	-

During 2011, an actuarial consulting firm was engaged to perform a detailed review of the assumptions for discount and inflation rates. The study considered the WSIB's historical investment returns for the insurance fund, the WSIB's investment strategy, statement of investment policies and procedures, other comparable plans and public personal injury compensation plans ("PPICP"), and modeled expected future long-term investment returns. The actuarial assumptions above incorporate

the outcome of this review. Indexation rates, wage escalation rates and health care costs escalation rates incorporate the inflation assumptions and additional internal studies of historical experience.

b) Wage loss

Wage loss refers to the proportion of a worker's wages that are lost due to an injury. Most benefits influenced by wage loss are based on historical experience and limits in the WSIA.

c) Mortality

Mortality rates are used to estimate the duration for which the WSIB will continue to be required to make payments to injured workers or survivors receiving monthly pension amounts. The mortality assumptions are determined separately for injured workers and survivors as follows:

i) the mortality assumption for injured workers is based on an actuarial study of the mortality levels by age and gender experienced by WSIB disability income recipients from 1996-2000, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB injured workers up to and including 2011;

ii) the mortality assumption for those receiving survivor benefits is based on an actuarial study of mortality levels experienced by WSIB survivors, and the 2000-2002 Province of Ontario population mortality table developed by Statistics Canada, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB survivors up to and including 2011; and

iii) the mortality rates for both injured workers and survivors are projected for future years using the Canada Pension Plan's mortality improvement factors. As such, future mortality rates are reduced to allow for greater future longevity expected for injured workers and survivors.

d) Claims incidence, termination and employment

Claims incidence refers to the number of claims incurred during the year and requires actuarial assumptions for the number of claims expected to have been incurred but not reported at December 31, 2011. Termination refers to the actuarial assumptions regarding the future duration of claims. Employment refers to the size of the workforce in each industry in a calendar year.

The assumptions regarding claims incidence are determined based on the number of claims incurred in past years. The termination assumption is determined using average termination experience of the WSIB from three recent injury years and modified for the existing claims expected to be of longer duration based on the level of employment. The employment assumptions are based on the historical number of workers covered by industry.

e) Occupational diseases

Occupational diseases refers to claims arising from exposures today to hazardous substances or conditions such as asbestos and excessive noise. Specific assumptions are made regarding occupational disease claims that are unreported at December 31, 2011 due to significant potential for long latency periods. The assumptions included in the determination of the benefit liabilities were based on the historical experience of the WSIB, other PPICPs and estimates of future occurrences.

f) Expenses

Periodically, claims administration and other claims related management expenses are studied for all cost centres by claim type, duration and amount. The ratio of claim administration expenses to the amounts of claims paid in the period is used to estimate the future cost of claim administration for current claims.

Sensitivity of actuarial assumptions

Changes in the actuarial assumptions used have a significant effect on the benefit cost recognized. The following provides an estimate of the potential impact of a change in the more significant assumptions:

	Increase in benefit cost	
Change in assumption	**2011**	**2010**
100 basis point decrease in the discount rate	2,017	1,631
100 basis point increase in the benefit indexation rate	1,674	1,268
100 basis point increase in health care costs escalation rate	277	251
1.0% decrease in termination rates	76	64
1.0% decrease in mortality rates	30	25
1.0% increase in the number of expected claims	14	11

Claims development

Benefit liabilities include the current estimate of future payments related to claims incurred during 2011 and prior years. Each reporting period, the benefit liabilities are adjusted for changes in the estimate of the future payments, and the change in estimate is recognized in benefit costs. The table below provided the development of the estimates related to claims incurred from 2006 - 2011.

	Year of Injury						
Year of Estimate	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
2006	2,353						
2007	2,606	2,488					
2008	2,675	2,458	2,393				
2009	2,984	2,785	2,620	2,164			
2010	3,091	3,105	3,052	2,418	2,361		
2011	3,231	3,286	3,065	2,207	2,744	2,760	
Current estimate of claims cost	3,231	3,286	3,065	2,207	2,744	2,760	17,293
Cumulative payments made	(1,242)	(1,122)	(929)	(547)	(348)	(156)	(4,344)
Outstanding claims (undiscounted)	1,989	2,164	2,136	1,660	2,396	2,604	12,949
Effect of discounting claims to present value							(5,790)
Outstanding claims prior to 2006							17,570
Long latency occupational diseases							625
Future claims administration cost							1,036
Benefit liabilities							**26,390**

Rate setting

In accordance with the WSIA, the WSIB's obligations are satisfied by charging annual premiums to all Schedule 1 employers and investment income. The premiums are determined based on a percentage of insurable payrolls of each Schedule 1 employer. Schedule 1 employers are classified within specific rate groups, which are based on the nature of the employer's business. The premium rate applicable to particular rate groups and Schedule 1 employers within that group is determined as the sum of four main components:

i) the cost of new claims, which is based on the expected number of claims and benefit payment costs of that rate group;

ii) administration costs, which is based on the rate group's share of expected administration costs and legislative obligations of the WSIB;

iii) the cost of old claims, which is based on the amortization of the shortfall between the costs of old claims and the accumulated assets supporting those claims; and

iv) experience rating, which, depending on the size and class of the employer, is based on relative historical cost performance of the employer relative to other employers in the same rate group.

Concentration of risks

The WSIB provides workplace injury insurance for all Schedule 1 employers with workers in the Province. In this respect, the WSIB's risk is concentrated among the workplace risks associated with industries in the Province. The insurable payroll by industry for the year ended December 31, 2011 is provided below.

Industry	Insurable payroll	% of total
Agriculture	1,714	1.1%
Automotive	6,451	4.1%
Construction	14,656	9.2%
Education	6,276	4.0%
Electrical	5,230	3.3%
Food	4,678	3.0%
Forestry	361	0.2%
Health care	20,747	13.1%
Manufacturing	34,861	22.0%
Mining	1,878	1.2%
Municipal	1,931	1.2%
Primary metals	1,639	1.0%
Process and chemicals	4,315	2.7%
Pulp and paper	749	0.5%
Services	42,886	27.1%
Transportation	9,110	5.7%
	157,482	99.4%
Insurable payrolls accrued but not reported	1,004	0.6%
Total	**158,486**	**100.0%**

In addition, the WSIB's risks are concentrated among the workplace injuries and diseases that result in disabilities or deaths to injured workers. The WSIA does not provide the WSIB with the ability to diversify

away from these risks. Additional risks can arise from appeals or legislative changes, which can produce an immediate increase in benefit liabilities.

The premium rates are the only means to mitigate these risks, other than investment income. Premium rates are adjusted annually as the benefit liabilities and risks are reviewed and then differentiated by rate group in order to reflect the higher or lower expected costs and loss frequency associated with particular rate groups. In addition, the rates charged to larger employers in the same rate group are further adjusted based on the historical claims experience of that employer relative to the rate group as a whole.

Liquidity of benefit liabilities risks

The following table provides an estimate of the expected timing of undiscounted cash flows for benefit payments for existing claims.

	2011	2010
Up to one year	6%	7%
Over one year and up to five years	22%	22%
Over five years and up to ten years	22%	22%
Over ten years and up to fifteen years	17%	17%
Over fifteen years	33%	32%
	100%	100%

19. Commitments and contingent liabilities

Operating leases

The WSIB is the lessee to a number of operating leases for office space and computer equipment, with lease terms from 3 to 15 years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Minimum lease payments
Not later than one year	13
Later than one year and not later than five years	34
Later than five years	12
	59

During the year ended December 31, 2011, operating lease payments of $13 (2010 - $14) were recognized in administration and other expenses. The payments included charges for operating expenses related to the leases of office space.

Investment commitments

As of December 31, 2011, the WSIB had commitments to fund real estate and infrastructure investments for $21 and $67, respectively (2010 - $25 and $nil).

The WSIB also has commitments related to its investments in associates and jointly controlled entities (note 10).

At December 31, 2011 and 2010, the WSIB had no commitments for the purchase or development of investment properties and no commitments related to the repair and maintenance of investment properties.

Legislated obligations and commitments

The WSIB is required to reimburse the Government of Ontario for all administrative costs of the Occupational Health and Safety Act. The WSIB is also required to fund the Workplace Safety and Insurance Appeals Tribunal, the offices of each of the Worker and Employer Adviser, and provide funding for the Institute for Work & Health, Safe Workplace Associations, clinics, and training centres. Funding is recognized in the consolidated statements of comprehensive income (loss) in the period to which the funding related.

Known commitments related to legislated obligations at December 31, 2011 were $57 related to the Government of Ontario's 2012 fiscal year ending March 31, 2012 and $237 related to the Government of Ontario's 2013 fiscal year April 1, 2012 through March 31, 2013.

Other commitments

At December 31, 2011, the WSIB has commitments over the next five years under non-cancellable contracts for purchases of goods and services with minimum future payments of approximately $98 (2010 - $83).

Legal actions

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB's financial position.

The WSIB entered into indemnification agreements with its current and former directors and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, and amounts paid in settlement and damages incurred as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which they are involved as a result of their services. Any such indemnification claims will be subject to any statutory or other legal limitation periods. The nature of the indemnification agreements prevents the WSIB from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Additionally, the WSIB has purchased directors' and officers' liability insurance. No amount has been recorded in the consolidated financial statements with respect to these indemnification agreements.

Also, in the normal course of operations, the WSIB may provide indemnification agreements, other than those listed above, to counterparties that would require the WSIB to compensate them for costs incurred as a result of changes in laws and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary. The nature of the indemnification agreements prevents the WSIB from making a reasonable estimate of the maximum potential amount the WSIB could be required to pay to counterparties. No amount has been recorded in the consolidated financial statements with respect to these indemnification agreements.

20. Financial instruments fair value measurement and disclosures

The following table summarizes the fair values of the WSIB's financial instruments. The estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act.

Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

	December 31 2011		December 31 2010		January 1 2010	
	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value
Assets						
Cash and cash equivalents (i)	983	983	1,009	1,009	427	427
Receivables (ii)	1,041	1,041	879	879	882	882
Investment receivables (ii)	115	115	73	73	76	76
Investments (i)	13,648	13,648	13,324	13,324	12,273	12,273
Investments under securities lending program (i)	523	523	559	559	1,243	1,243
	16,310	**16,310**	**15,844**	**15,844**	**14,901**	**14,901**
Liabilities						
Payables and accruals (ii)	1,083	1,083	955	955	755	755
Investment payables (ii)	23	23	24	24	20	20
Long-term debt (iii)	160	137	143	143	119	113
	1,266	**1,243**	**1,122**	**1,122**	**894**	**888**

i) Cash and cash equivalents, investments and investments under securities lending program are measured at fair value in the consolidated statements of financial position.

ii) Receivables, investment receivables and payables and accruals are measured at amortized cost in the consolidated statements of financial position. Due to the short term nature of these financial assets and financial liabilities, the carrying value approximates fair value.

iii) Long-term debt is measured at amortized cost in the consolidated statements of financial position.

Fair value hierarchy

The WSIB uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure the fair value of financial instruments. The classifications are as follows:

i) the use of quoted market prices for identical financial instruments (Level 1);

ii) internal models using observable market information as inputs (Level 2); and

iii) internal models without observable market information as inputs (Level 3).

	December 31, 2011				December 31, 2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash	467	-	-	467	393	-	-	393
Short-term money market securities	-	516	-	516	-	616	-	616
	467	516	-	983	393	616	-	1,009
Foreign exchange contracts	-	71	-	71	-	22	-	22
Futures	-	(1)	-	(1)	-	4	-	4
Fixed income securities	-	5,337	-	5,337	-	5,066	4	5,070
Equity securities	6,839	35	1	6,875	7,385	71	-	7,456
Hedge funds	-	1,344	-	1,344	-	699	158	857
Pooled funds	-	134	-	134	-	99	-	99
Real estate debentures	-	-	337	337	-	-	308	308
Loss of Retirement Income Fund annuities	-	74	-	74	-	67	-	67
Investments and investments under securities lending program	6,839	6,994	338	14,171	7,385	6,028	470	13,883
	7,306	**7,510**	**338**	**15,154**	**7,778**	**6,644**	**470**	**14,892**

	January 1, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash	50	-	-	50
Short-term money market securities	-	377	-	377
	50	377	-	427
Foreign exchange contracts	-	48	-	48
Futures	-	-	-	-
Fixed income securities	-	4,911	4	4,915
Equity securities	7,579	201	-	7,780
Hedge funds	-	324	105	429
Pooled funds	-	-	-	-
Real estate debentures	-	-	284	284
Loss of Retirement Income Fund annuities	-	60	-	60
Investments and investments under securities lending program	7,579	5,544	393	13,516
	7,629	**5,921**	**393**	**13,943**

There were no significant transfers between Level 1 and Level 2 from January 1, 2010 to December 31, 2011. During 2011, $158 of hedge funds and $4 of fixed income securities were transferred from Level 3 to Level 2. These financial assets were previously classified as Level 3 due to restrictions that prevented their sale for a specific time period, and as such, directly observable market information was not available. During 2011, this restriction ended and the securities were transferred to Level 2. There were no significant transfers between Level 2 and Level 3 during 2010.

Level 3 financial instruments

The table below provides a reconciliation of total financial instruments measured at fair value using internal models without observable market information as inputs (Level 3):

	2011	**2010**
Balance at beginning of year	470	393
Purchases	6	54
Sales	(36)	(12)
Transfers to Level 2	(162)	-
Gains recognized in net investment income	60	35
Balance at December 31	**338**	**470**

The fair value of real estate debentures included in Level 3 are estimated based on valuations of the underlying investment properties performed internally or by independent professional third-party appraisers using models incorporating available market evidence. The valuations of the underlying investment properties are primarily based on discounted expected future cash flows of each property, using a discount and terminal capitalization rate reflective of the characteristics, location and market of each property. The future cash flows of each property are based on, among other things, rental income from current leases and assumptions about rental income from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. The WSIB has estimated that a 25 basis point increase (decrease) in the assumptions used for both the terminal capitalization rate and discount rate would result in a $17 decrease (increase) in the estimated fair value of the real estate debentures.

21. Financial risk management

The WSIB is exposed to a number of risks and uncertainties related to its financial instruments. In order to mitigate these risks, the WSIB employs a broad and diversified set of risk mitigation policies and techniques.

Liquidity risk

Liquidity risk, or funding risk, is the risk the WSIB will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The WSIB mitigates this risk by ensuring that the majority of its investment portfolio is invested in well established, active and liquid markets. Note 20 *Financial instruments fair value measurement and disclosure* provides information on how the WSIB categorizes its financial instruments according to a hierarchy of fair value measurements. As at December 31, 2011, 75.3% (2010 - 83.2%) of the investment portfolio was invested in readily marketable fixed income securities and publicly traded equities. Note 10 *Investments and net investment income* provides further information on the nature of the assets within the investment portfolio.

The following provides the carrying values of all financial instruments by contractual maturity or expected cash flow:

	Within 1 year	2 - 5 years	6 - 10 years	Over 10 years	No fixed maturity	Dec. 31 2011 Total	Dec. 31 2010 Total
Equity securities	-	-	-	-	6,875	6,875	7,456
Fixed income securities	17	2,226	1,403	1,691	-	5,337	5,070
Hedge fund	-	-	-	-	1,344	1,344	857
Real estate debentures	-	-	-	-	337	337	308
Pooled funds	-	-	-	-	134	134	99
Annuities	-	-	-	-	74	74	67
Foreign exchange contracts	71	-	-	-	-	71	22
Futures	(1)	-	-	-	-	(1)	4
Investments and investments under securities lending program	87	2,226	1,403	1,691	8,764	14,171	13,883
Cash and cash equivalents	983	-	-	-	-	983	1,009
Receivables	1,041	-	-	-	-	1,041	879
Investment receivables	115	-	-	-	-	115	73
Payables and accruals	(1,083)	-	-	-	-	(1,083)	(955)
Investment payables	(23)	-	-	-	-	(23)	(24)
Long-term debt	-	(95)	(5)	(37)	-	(137)	(143)
	1,120	**2,131**	**1,398**	**1,654**	**8,764**	**15,067**	**14,722**

The following provides further liquidity information regarding foreign exchange contracts:

	Carrying amount	Contractual cash flows	6 months or less	6 months to 1 year
Forward exchange contracts				
Pending Payables	(5,008)	(5,008)	(5,008)	-
Pending Receivables	5,079	5,079	5,079	-
	71	**71**	**71**	**-**
Futures				
Futures long	(1)	(1)	(1)	-
Futures short	-	-	-	-
	(1)	**(1)**	**(1)**	**-**

The WSIB maintains a $150 unsecured line of credit with a commercial bank for general corporate purposes. As at December 31, 2011, $0.4 (2010 - $0.4) of this credit facility was used to support letters of credit in favour of the Ontario Ministry of Finance related to real estate transactions.

Credit risk

Credit risk is the risk a counterparty to a financial instrument will fail to discharge an obligation and cause the WSIB to incur a financial loss.

a) Fixed income securities

The WSIB's fixed income securities consist primarily of high quality, investment grade debt instruments. An investment grade debt instrument is one that is rated BBB and above. The WSIB manages its credit risk through a due diligence process, by selecting multiple highly rated counterparties and by setting counterparty exposure limits.

The following provides information regarding the credit rating of the WSIB's fixed income securities:

	2011		2010	
AAA	1,867	35.0%	1,876	37.0%
AA	1,725	32.3%	1,412	27.8%
A	1,458	27.3%	1,474	29.1%
BBB	287	5.4%	308	6.1%
	5,337	**100.0%**	**5,070**	**100.0%**

The following provides further information regarding the nature of fixed income securities:

	2011	2010
Canadian Bonds	5,023	5,022
US Bond	154	20
Global Bonds	160	28
	5,337	**5,070**

Credit risk associated with fixed income securities also includes concentration risk. Concentration risk arises from the exposure of investments from one particular issuer, a group of issuers, a geographic region, or an industry sector. These groups share similar characteristics such as type of industry, regulatory compliance, and economic and political conditions, which may impact the issuers' ability to meet their contractual commitments.

The WSIB manages concentration risk through limits on exposure to issuers, regions and industry sectors. Through these limits, not more than 5% of the fair value of the investment portfolio is invested in the securities of a single non-government issuer.

The following provides information regarding the concentration of fixed income securities.

	2011		2010	
Asset backed securities	48	0.9%	100	2.0%
Communications and publishing	37	0.7%	48	1.0%
Consumer products and merchandising	62	1.2%	47	1.0%
Federal government and agencies	1,470	27.5%	1,482	29.2%
Financial services	731	13.7%	741	14.6%
Industrial products	7	0.1%	10	0.2%
Natural resources	114	2.1%	108	2.1%
Other corporate	163	3.1%	119	2.3%
Provincials and municipal	2,241	42.0%	2,016	39.8%
Real estate	39	0.7%	32	0.6%
Utilities and telecommunications	425	8.0%	367	7.2%
Total Fixed Income	**5,337**	**100.0%**	**5,070**	**100.0%**

b) Securities lending program

The WSIB manages counterparty risk relating to its securities lending program by establishing a pre-approved, qualified borrower list and through exposure limits. Non-cash collateral, the fair value of which represents at least 102% of the fair value of the loaned securities, is maintained until the underlying securities have been returned to the WSIB. The collateral is comprised primarily of government bonds and major bank short-term notes The fair value of the loaned securities is monitored on a daily basis by an intermediary financial institution with additional collateral obtained or refunded as the fair value of the underlying securities fluctuates.

c) Accounts receivable from Schedule 2 employers

The WSIB administers the payment of the benefits for workers of Schedule 2 employers and recovers the cost of these benefits plus administration fees from the employers. At December 31, 2011, the WSIB held collateral in the form of letters of credit in the amount of $303 (2010 - $292) to mitigate any credit risk associated with Schedule 2 employers. These letters of credit are issued by highly rated Canadian financial institutions and can be drawn on demand.

Market risk

Market risk includes currency risk, interest rate risk and price risk.

a) Currency risk

Currency risk is the risk of loss due to adverse movements in foreign currency rates as compared to the Canadian dollar. The WSIB is exposed to a number of foreign currencies in its investment portfolio. The WISB also uses foreign exchange contracts as an additional source of return, for economic hedging strategies to manage investment risk, to improve liquidity, or to manage exposure to asset classes or strategies. Foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract inception.

The following provides a sensitivity analysis of the effect of a one percent increase or decrease in the Canadian dollar compared the five foreign currencies that represent 81% (2010 – 79%) of the WSIB's foreign currency exposure in its investment portfolio:

Currency	Total exposure	Effect of 1% change
US Dollar	1,736	17
British Pound Sterling	293	3
Euro	255	3
Japanese Yen	191	2
Swiss Franc	181	2
	2,656	**27**

b) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The WSIB reviews interest rate risk through periodic analyses that assess the impact of different interest rate scenarios on its assets and liabilities over a period of time. Interest rate risk is mitigated over the long term primarily through asset allocation.

The WSIB uses Option Adjusted Modified Duration to measure the sensitivity of the fair value of fixed income securities to a change in interest rates. A parallel shift in the yield curve of 1%), with all other variables held constant, would result in an increase or decrease in the fair value of fixed income securities of approximately $369 (2010 - $324). This information is based on the assumption that the securities in the WSIB's portfolio are not impaired and interest rates and equity prices move independently.

c) Price risk

Price risk is the risk the value of an equity security will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument, specific to its issuer, or affecting all instruments traded in the market.

The WSIB mitigates price risk by diversifying its investment portfolio in accordance with its Statement of Investment Policies and Procedures ("SIPP"). The SIPP establishes the policies governing the WISB's investment portfolio, and is reviewed by the Board of Directors on no less than an annual basis and is amended as required. The SIPP requires that the WSIB's investment portfolio be diversified across certain asset classes and investment strategies.

The estimated effect on the fair value of equity securities resulting from a 10% change in market indices, holding all other factors constant, would be as follows:

	Total exposure	Effect of 10% change
S&P/TSX	1,436	143
S&P 500 Index	2,870	287
MSCI EM	259	26
MSCI EAFE	2,310	231
	6,875	**687**

Benefit liabilities

Benefit liabilities represent the actuarially determined present value of future payments for reported and unreported claims related to workers of Schedule 1 employers incurred on or prior to the reporting date. Benefit liabilities do not represent an exact calculation of liability, but instead represent estimates at a given point in time involving actuarial and statistical projections of the WSIB's expectations of the ultimate settlement and administration costs of claims incurred. Establishing an appropriate level of benefit liabilities is an inherently uncertain process.

The WSIB is exposed to the risk that the actual obligations for benefit payments exceed its estimate of benefit liabilities. Benefit liabilities are influenced by factors such as the discount rate used to value future claims, expected inflation, availability, utilization and cost of health care services, injury severity and duration, availability of return-to-work programs and re-employment opportunities at pre-injury employers, wage growth, new medical findings that affect the recognition of occupational diseases, legislated changes to benefit rates or modification of the recognition of workplace injuries, which are sometimes applied retroactively, and precedents established through various claims appeals processes.

The WISB mitigates these risks by utilizing both proprietary and commercially available actuarial models, assessing historical loss development patterns in addition to augmenting its resources with the recruitment of a Chief Statistician and the formation of an Actuarial Advisory Board consisting of individuals with expertise in the area of actuarial science and specifically as it relates to worker compensation matters.

Note 18 *Benefit liabilities and benefit costs* provides further information regarding the nature of the benefit liabilities.

22. Related party transactions

Government of Ontario and related entities

The WSIB is a trust agency of the Government of Ontario, responsible for administering the WSIA. As such, the WSIB is considered a government-related entity and is provided partial exemptions under IFRS from its disclosure of transactions with the Government of Ontario and its controlled ministries, agencies, and Crown corporations.

Pursuant to the WSIA, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the *Occupational Health and Safety Act*. The WSIB is also required to fund the Workplace Safety and Insurance Appeals Tribunal ("WSIAT") and the offices of each of the Worker and Employer Advisor. These reimbursements and associated amounts charged to employers are determined and approved by the Minister of Labour. The WSIB is also committed to providing funding for the Institute for Work & Health and the Safe Workplace Associations, clinics, and training centres. The total amount of funding provided under these legislated obligations and commitments for the year ended December 31, 2011 was $228 (2010 - $227).

In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively present as legislated obligations in the consolidated statements of comprehensive income (loss), the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various controlled ministries, agencies, and Crown corporations of the Government of Ontario.

Included in investments are marketable fixed income securities issued by the Government of Ontario and related entities valued at $975 (2010: $944).

Key management remuneration

The remuneration of key management, which includes the Board of Directors, is included in administration and other expenses.

	2011	2010
Salaries and short-term benefits	2.7	2.1
Long-term benefit plans	0.3	0.3
	3.0	**2.4**

Post-employment benefit plans

The WSIB's two employee defined benefit pension plans and other long-term employee benefit plan are considered related parties. Note 17 provided details of transactions with these post-employment benefit plans.

23. Subsequent events

Organizational changes

The WSIB is undergoing a number of changes as part of its long-term business strategy to transform into a more effective and efficient organization and to enhance service levels to workers and employers. In February and March 2012, as part of the plan to focus resources on key operating programs, the WSIB announced a reduction in the number of its full-time workers, which included the elimination of certain positions and an offer of voluntary exit packages. This component of the WSIB's long-term strategy is expected to result in a reduction of approximately 326 full-time employees. An estimated $27 of termination benefits related to these changes is expected to be recognized in 2012.

Harry Arthurs' Review

In September 2010, at the request of the WSIB, Professor Harry Arthurs, a former dean of Osgoode Hall Law School and President Emeritus of York University, was appointed to conduct an independent review of funding related aspects of the WSIB. Professor Arthurs was asked to consider six specific issues including: the WSIB's unfunded liability; premium rate setting; rate groups; employer incentives; occupational diseases; and the indexation of benefits for partially disabled workers.

Professor Arthurs' report, Funding Fairness, was finalized and submitted to the WSIB in March 2012. The WSIB is currently reviewing the recommendations from the report and expects to begin to take actions to implement many of Professor Arthurs' recommendations during 2012.

At this time, the WSIB cannot quantify the impact of these changes on its financial position.

Transition of the prevention mandate to the Ministry of Labour

In December 2010, the Expert Panel on Occupational Health and Safety, led by Tony Dean, released its final report after a comprehensive review of Ontario's workplace health and safety system. The Panel recommended the creation of a new organization, within the Ministry of Labour, to assume the Province's prevention mandate that resided with the WSIB at December 31, 2011. Bill 160 received Royal Assent on June 1, 2011, specifying the transfer of the prevention mandate from the WSIB to the Ministry of Labour as of April 1, 2012. During 2011, $9 of expenses related to the WSIB's prevention mandate was included in administration and other expenses. At this time, the WSIB cannot quantify the impact, if any, of this change on its level of expenditures related to prevention.

24. Transition to IFRS

Overview

IFRS replaced Canadian GAAP for publicly accountable enterprises, including the WSIB, effective for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. As such, these are the WSIB's first annual consolidated financial statements prepared in accordance with IFRS. The WSIB's first interim consolidated financial statements prepared using accounting policies consistent with IFRS were for the three months ended March 31, 2011; previously the WSIB prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP.

The accounting policies described in note 3 have been consistently applied to all periods in these annual consolidated financial statements, except for the application of the first-time adoption exemptions described below.

First-time adoption

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of the WSIB's first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The WSIB has elected to apply the following optional exemptions in the preparation of its opening IFRS consolidated statement of financial position as at January 1, 2010, the WSIB's transition date:

a) Fair value of land and buildings

The WSIB has elected to use the fair value of the land and building at its head office location as the deemed opening cost under IFRS. The application of this exemption resulted in an increase in the carrying value of land and buildings of $76 at January 1, 2010, and a corresponding decrease in the deficiency of assets. Subsequent to January 1, 2010, the WSIB will follow the cost model for all property and equipment.

The fair value of the land and building at January 1, 2010 was estimated based on a valuation performed by a qualified independent appraiser. The valuation included a combination of the following valuation approaches:

i) Consideration of recent transactions of similar properties in similar market areas (land and buildings);

ii) Discounted cash flow analysis based on estimated future cash flows of the property, using a discount rate of 8.0% (buildings); and

iii) The direct capitalization method based on the conversion of normalized earnings into an expression of market value using a capitalization rate of 6.75% (buildings).

b) Employee benefits

The WSIB has elected to recognize all previously unrecognized actuarial gains and losses in the opening deficiency of assets at January 1, 2010. The application of this exemption resulted in an increase in the employee benefit plans liabilities of $293 at January 1, 2010 and a corresponding increase in the deficiency of assets.

The WSIB has also elected to disclose certain comparative information regarding the present value of the defined benefit obligation, fair value of plan assets, and experience adjustments prospectively from the transition date.

c) Designation of previously recognized financial instruments

The WSIB has elected to designate all its existing investments at January 1, 2010 as FVTPL. Previously, under Canadian GAAP, investments, except derivatives, were classified as available-for-sale. The application of this exemption resulted in a decrease in accumulated other comprehensive income of $1,355 at January 1, 2010, representing the total net unrealized gains on the available-for-sale financial assets. A corresponding decrease was recorded in the accumulated excess of expenses over revenue, resulting in no impact on the total deficiency of assets at January 1, 2010.

d) Insurance contracts

The WSIB has elected to apply the transitional provisions of IFRS 4 *Insurance Contracts*, by continuing to apply its existing accounting policies related to insurance policies. IFRS 4 also provides some transitional disclosure relief related to the number of years required as comparative information on claims development.

e) Business combinations

The WSIB has elected to apply IFRS 3 *Business Combinations* prospectively from the transition date, thereby not restating business combinations that occurred prior to the transition date.

f) Borrowing costs

The WSIB has elected to apply IAS 23 *Borrowing Costs* prospectively from the transition date. IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, production or construction of certain assets.

As a mandatory exception to retrospective treatment, IFRS 1 does not permit changes to estimates that have been made previously. Estimates used in the preparation of the WSIB's opening IFRS consolidated statement of financial position, and other comparative information restated to comply with IFRS, are consistent with those made previously under Canadian GAAP.

Changes to accounting policies on adoption of IFRS

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual consolidated financial statements prepared under Canadian GAAP. The following summarizes the significant changes to the WSIB's accounting policies on adoption of IFRS and the effect on its opening IFRS consolidated statement of financial position as at January 1, 2010.

a) Investment properties

IFRS defines an investment property as a property held to earn rental income or for capital appreciation, or both. Under Canadian GAAP, the WSIB measured its investment properties at cost less accumulated depreciation. IFRS permits an accounting policy choice for investment property of the fair value model or the cost model. The cost model is generally consistent with Canadian GAAP.

On adoption of IFRS, the WSIB has decided to adopt the fair value model for its investment properties. Under the fair value model, investment properties are initially recognized at cost and subsequently remeasured to fair value at each reporting date. Changes in fair value will be recognized in investment income. Investment properties are not amortized under the fair value model.

This change in accounting policy resulted in an increase in investment properties of $23 at January 1, 2010 and a corresponding decrease in the deficiency of assets.

b) Jointly controlled entities

Under IFRS, jointly controlled entities can be accounted for using proportionate consolidation or the equity method. The WSIB has chose to account for jointly controlled entities using the equity method. Under Canadian GAAP, the WSIB accounted for jointly controlled entities using proportionate consolidation.

This change in accounting policy resulted in an increase in investment in associates and jointly controlled entities of $61 at January 1, 2010 and a corresponding decrease in the net assets of jointly controlled entities which were included in various line item of the consolidated statement of financial position under proportionate consolidation.

c) Designation of financial instruments

Under IFRS, the WSIB elected to designate all investments as at fair value through profit and loss. The investments will be measured at fair value with realized and unrealized gains and losses recognized in investment income. Previously, under Canadian GAAP, investments, except derivatives, were classified as available-for-sale. Assets classified as available for sale were measured at fair value with unrealized gains and losses recognized in other comprehensive income. This change in accounting policy does not affect total comprehensive income or the total deficiency of assets.

d) Impairment of non-financial assets

IFRS requires the recognition of an impairment charge if the recoverable amount of long-lived assets is less than their carrying value. The recoverable amount is defined as the higher of the fair value less costs to sell and the value in use. Value in use is determined using discounted estimated future cash flows. Under Canadian GAAP, a write-down to estimated fair value was required only if the undiscounted estimated future cash flows of a group of assets are less than their carrying value. IFRS also requires the reversal of any previous impairment losses, where circumstances have changed such that the level of impairment in the value of the assets has been reduced. Canadian GAAP prohibits the reversal of impairment losses.

The WSIB has changed its accounting policies related to impairment of its property and equipment and intangible assets to be consistent with the requirements under IFRS. The changes in accounting policies related to impairment did not have a significant impact on the opening IFRS consolidated statement of financial position.

e) Financial statement presentation

On adoption of IFRS, several items within the consolidated statement of financial position and the consolidated statement of comprehensive income (loss) were reclassified, or subject to different presentation. These changes in presentation do not have an impact on the total deficiency of assets or comprehensive income (loss).

i) Under IFRS, all cash and cash equivalents are presented in total on the consolidated statement of financial position. Under Canadian GAAP, some cash and cash equivalents were presented with investments.

ii) Under IFRS, investments, investments in associates and investment property are presented separately on the consolidated statement of financial position. Under Canadian GAAP, the WSIB included investments in associates and investment property in the investment line item on the consolidated statement of financial position.

iii) The WSIB participates in a securities lending program through an intermediary for the purpose of generating fee income. Under IFRS, the investments under the securities lending program are presented separately on the consolidated statement of financial

position. Under Canadian GAAP, these investments were included in the total of the investments line item on the consolidated statement of financial position.

iv) The assets of the Loss of Retirement Income Fund are included in investments. Under Canadian GAAP, the income associated with the Loss of Retirement Income Fund was included in net investment income, which was offset by the inclusion of an amount equal to the income in the Loss of Retirement Income Fund contributions expense. Under IFRS, the WSIB is deducting the income associated with the Loss of Retirement Income Fund from net investment income and excluding it from the Loss of Retirement Income Fund contributions expense.

v) Under IFRS, income from associates is presented separately on the consolidated statement of comprehensive income (loss); previously income from associates was included in investment income.

vi) Under IFRS, the WSIB is presenting investment expenses separately on the consolidated statement of comprehensive income; previously investment income was presented net of investment expenses.

vii) The WSIB administers the payment of the benefits for workers of Schedule 2 employers and recovers the cost of these benefits plus administration fees from the employers. On adoption of IFRS, the payments of benefits on behalf of Schedule 2 employers was not reflected in benefit costs, and the reimbursement was not included in revenues. Previously, the WSIB included these benefit payments in benefit costs and the corresponding reimbursement in revenues. The administration fees charged to Schedule 2 employers continue to be recognized as revenues under IFRS.

viii) Under IFRS, non-controlling interests are presented as a component of the deficiency of assets. Under Canadian GAAP, non-controlling interests were presented as a separate section of the consolidated statement of financial position.

ix) Under IFRS, non-controlling interests are presented as an allocation of comprehensive income. Previously under Canadian GAAP, non-controlling interests were presented as a deduction from net income and comprehensive income (loss).

x) Under IFRS, the WSIB has used the term deficiency of assets to describe the section of the consolidated statement of financial position that was previously described as unfunded liability.

Reconciliation of Canadian GAAP to IFRS

The following provide reconciliations of the total deficiency of assets and comprehensive income (loss) from Canadian GAAP to IFRS for the respective periods. The adoption of IFRS did not have a material impact on the consolidated statement of cash flows.

Explanatory notes follow the reconciliations.

	December 31, 2010				
	Canadian GAAP	Presentation changes		IFRS adjustments	IFRS
Assets					
Cash and cash equivalents	305	704	a	-	1,009
Receivables	870	9		-	879
Investment receivables	78	(5)		-	73
Employee benefit plans	29	-		(29) f	-
Investments	15,136	(1,812)	a	-	13,324
Investments under securities lending program	-	559	a	-	559
Investments in associates and jointly controlled entities	-	225	a	119 c,d	344
Investment property	-	329	a	73 d	402
Property and equipment	119	(9)		76 e	186
Intangible assets	101	-		-	101
Total assets	**16,638**	**-**		**239**	**16,877**
Liabilities					
Payables and accruals	955	-		-	955
Investment payables	24	-		-	24
Long-term debt	121	-		22	143
Loss of Retirement Income Fund liability	1,193	-		-	1,193
Employee benefit plans	520	-		267 f	787
Benefit liabilities	24,350	-		-	24,350
Total liabilities	**27,163**	**-**		**289**	**27,452**
Non-controlling interests	1,830	(1,830)	b	-	-
Deficiency of assets					
Unfunded liability attributable to WSIB stakeholders	(13,693)	-		1,255	(12,438)
Accumulated other comprehensive income	1,338	-		(1,338) f	-
Non-controlling interests	-	1,830	b	33	1,863
Total deficiency of assets	**(12,355)**	**1,830**		**(50)**	**(10,575)**
Total liabilities and deficiency of assets	**16,638**	**-**		**239**	**16,877**

	January 1, 2010				
	Canadian GAAP	Presentation changes		IFRS adjustments	IFRS
Assets					
Cash and cash equivalents	45	382	a	-	427
Receivables	882	-		-	882
Investment receivables	75	1		-	76
Employee benefit plans	-	-		-	-
Investments	14,350	(2,076)	a	(1)	12,273
Investments under securities lending program	-	1,243	a	-	1,243
Investments in associates and jointly controlled entities	-	211	a	61 c,d	272
Investment property	-	241	a	23 d	264
Property and equipment	113	(2)		76 e	187
Intangible assets	96	-		-	96
Total assets	**15,561**	**-**		**159**	**15,720**
Liabilities					
Payables and accruals	754	-		1	755
Investment payables	20	-		-	20
Long-term debt	109	-		4	113
Loss of Retirement Income Fund liability	1,054	-		-	1,054
Employee benefit plans	495	-		293 f	788
Benefit liabilities	23,250	-		-	23,250
Total liabilities	**25,682**	**-**		**298**	**25,980**
Non-controlling interests	1,630	(1,630)	b	-	-
Deficiency of assets					
Unfunded liability attributable to WSIB stakeholders	(13,106)	-		1,213	(11,893)
Accumulated other comprehensive income	1,355	-		(1,355) g	-
Non-controlling interests	-	1,630	b	3	1,633
Total deficiency of assets	**(11,751)**	**1,630**		**(139)**	**(10,260)**
Total liabilities and deficiency of assets	**15,561**	**-**		**159**	**15,720**

	Year ended December 31, 2010				
	Canadian GAAP	Presentation changes		IFRS adjustments	IFRS
Revenues					
Premiums	3,738	(228)	h	(3)	3,507
Net investment income					
Investment income	1,139	(12)	i,j	104 g	1,231
Investment expenses	-	(85)	j	1	(84)
Income from associates and jointly controlled entities	-	9	j	51 c,d	60
	1,139	(88)		156	1,207
	4,877	**(316)**		**153**	**4,714**
Expenses					
Benefit costs					
Benefit payments	3,367	(300)	h	-	3,067
Claim administration costs	342	-		-	342
Changes in actuarial valuation of benefit liabilities	1,100	-		-	1,100
	4,809	(300)		-	4,509
Loss of Retirement Income Fund contributions	167	(94)	i	-	73
Administration and other expenses	213	78	h	-	291
Legislated obligations and commitments	227	-		-	227
	5,416	**(316)**		**-**	**5,100**
Net loss before non-controlling interests	**(539)**	**-**		**153**	**(386)**
Non-controlling interests	(136)	136	k	-	-
Net loss	**(675)**	**136**		**153**	**(386)**
Other comprehensive income					
Unrealized gains on investments	76	-		(76) g	-
Non-controlling interest	(9)	9	k	-	-
	67	9		(76)	-
Comprehensive loss	(608)	145		77	(386)
Comprehensive income (loss) attributable to:					
WSIB stakeholders	(608)	-		63	(545)
Non-controlling interests	-	145	k	14	159
	(608)	**145**		**77**	**(386)**

Explanatory notes:

a) Reclassification to present cash and cash equivalents in total and reclassification to present investments under security lending program, investments in associates and jointly controlled entities and investment property separately on the consolidated statement of financial position.

b) Change in presentation of non-controlling interests from a separate section on the consolidated statement of financial position to a component of the deficiency of assets.

c) The effect of the change in accounting policy to account for jointly controlled entities using the equity method.

d) The effect of the change in accounting policy to measure investment property at fair value.

e) The effect of applying the first-time adoption exemption to use the fair value of specific land and building assets as the deemed cost under IFRS at January 1, 2010.

f) The effect of applying the first-time adoption exemption to recognize all previously unrecognized actuarial gains and losses at January 1, 2010.

g) The effect of applying the first-time adoption exemption to designate all investments as FVTPL at January 1, 2010.

h) The effect of excluding the Schedule 2 benefit costs and reimbursements from premiums and benefit costs.

i) The effect of the change in presentation to exclude income on the Loss of Retirement Income Fund from investment income.

j) Reclassification to present investment expenses and income from associates separately on the consolidated statement of comprehensive income (loss).

k) Change in presentation of non-controlling interests from a deduction from comprehensive income (loss) to an allocation of comprehensive income (loss).

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